

# **Audit** **Committee** **update**

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**Torbay Unitary Council**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

**1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

**2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

**3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

**4** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Alun Williams

District Auditor

27 June 2012

# Progress report

## Opinion on the financial statements

5 Our audit of the Council's financial statements will commence in July and our findings will be reported back to this Committee on the 19<sup>th</sup> September.

## Interim Audit

6 Auditing standards require us to make an assessment of the key financial and other information systems which underpin your financial statements. This is in order to assess their reliability as a basis for preparing the accounts.

7 We undertake an interim audit to test these systems and also undertake as much early substantive work as possible to reduce the impact of the audit on the Council's staff later in the year. In addition to this we also undertake a separate IT risk assessment.

8 Our interim audit report is included as an agenda item for this meeting.

## VFM conclusion

9 The Audit Commission introduced a new approach to value for money work in 2010/11. The VFM conclusion is now based on two nationally specified criteria:-

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

10 Our review of the Council's arrangements is currently being undertaken.

# Other matters of interest

## 2012/13 audit fees

**11** Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April.

**12** As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five year period, irrespective of the rate of inflation.

**13** The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

**14** The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

**15** In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

## 2010/11 National Fraud Initiative (NFI)

**16** In May 2012 the Audit Commission published the results of the National Fraud Initiative (NFI) for 2010/11.

**17** The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

**18** When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.

Data Match	Possible fraud or error
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

**19** The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same time period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

**20** The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

**21** The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to Officers.

**22** Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

## Public Sector Internal Audit Standards

**23** The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

**24** This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

**25** The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

## Payment by results

**26** On 5 April the Audit Commission published *Local payment by results*, a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

**27** PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service.

**28** These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

**29** What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

**30** National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

**31** The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

**32** The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

**33** The Audit Commission has sent the briefing to chief executives of all councils and other key stakeholders.

## The rights of local electors

**34** The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

**35** The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

**36** Members of the Audit Committee may find it helpful to familiarise themselves with this publication which can be found on the Audit Commission's website.

## NAO Role in local VFM studies

**37** The National Audit Office (NAO) is preparing to become involved in Value for Money (VFM) studies and recently announced its first subject to a new consultation group.



**38** The new Local Government Reference Panel includes people from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

**39** The panel – which will meet twice a year – is intended to give councils an input to a new programme of NAO value for money studies of the local government sector.

**40** The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector. The NAO's first topic for a value for money report is to be communication between central and local government. There will be two other studies in 2012/13, rising to four in 2013/14 and six in 2014/15.

**41** Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

## **CIPFA's brief guide to Local Government Finance reforms**

**42** As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

**43** CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and councillors may have surrounding the localisation of support for council tax and business rate retention.

**44** The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all of the legislation and guidance has yet to be published so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

# Key considerations

**45** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Is the Audit Committee satisfied with the Council's responses to the questions in the NFI briefing for elected members?
- Has the Council reviewed the Audit Commission's briefing paper on local payment by results agreements?

## Contact details

**46** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

**47** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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