

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

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**Portsmouth City 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), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms.**

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

# Contents

<b>Introduction.....</b>	<b>2</b>
<b>Progress report.....</b>	<b>3</b>
Financial statements.....	3
VFM conclusion.....	3
Other areas of work.....	3
<b>Emerging national issues and developments .....</b>	<b>4</b>
Update on outsourcing the work of the Audit Practice.....	4
Update on the residual Audit Commission .....	4
2012/13 audit fees .....	4
Draft Local Audit Bill .....	5
2010/11 National Fraud Initiative .....	5
2012/13 National Fraud Initiative (NFI) .....	6
Payment by results .....	6
The rights of local electors.....	7
NAO role in local VFM studies.....	8
CIPFA’s brief guide to Local Government Finance reforms .....	8
2010/11 local government claims and returns.....	8
Localism Act – update on standards and conduct arrangements.....	9
Public sector internal audit standards .....	9
Key considerations .....	10
<b>Contact details.....</b>	<b>11</b>

# 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. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments that may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions that the Committee may wish to consider in order to assess whether it has obtained sufficient assurance on emerging issues.
- 3** If you require any additional information regarding the issues included within this briefing, please contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit the Audit Commission's website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) that now enables you to sign up to be notified of any new content that is relevant to your type of organisation.

Kate Handy

District Auditor

3 September 2012

# Progress report

## Financial statements

5 Work is progressing in line with schedule and we are on track to give our opinion before the deadline. The Annual Governance Report also presented today expands on the findings from our work and highlights issues and actions for members.

## VFM conclusion

6 Work finished and preliminary conclusions drawn at end of August. To be discussed with officers before presentation to members in our Annual Governance Report

## Other areas of work

7 Grant certification work is ahead of schedule and we are on track to meet all deadlines. However, we are required to undertake '40+' testing on housing benefits and are working with officers to ensure this is completed in time. LA01 has been certified, ahead of schedule.

8 We have not received any objections from members of the public.

# Emerging national issues and developments

## Update on outsourcing the work of the Audit Practice

**9** At its July 2012 meeting, the Audit Commission Board confirmed the audit appointments for the audit of the accounts of all principal bodies from 2012/13. These appointments commence on 1 September 2012.

**10** On 31 July 2012, the Director of Audit Policy and Regulation wrote to chief executives of all principal bodies to inform them of the Board's decision and to confirm their new audit provider.

**11** Each firm has made its own arrangements for making initial contact with the audited bodies to which it has been appointed.

**12** For our part, we remain committed to:

- fulfilling our remaining responsibilities to the high standards you expect and deserve; and
- managing a smooth transition from the Audit Practice to your new audit provider, Ernst and Young.

## Update on the residual Audit Commission

**13** The Audit Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

**14** The Department of Communities and Local Government (DCLG) has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing, in advance of its proposed abolition. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

**15** More recently, the Board of the Audit Commission has announced the appointment of Marcine Waterman as Controller of Audit with effect from 1 September 2012. Marcine is currently the Commission's Director of Audit Policy and Regulation.

## 2012/13 audit fees

### Fee scales for 2012/13 audits of local government and NHS bodies

**16** 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 2012.

**17** 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.

### **Fee scales for 2012/13 National Fraud Initiative**

**18** 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.

**19** 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.

**20** 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.

### **Draft Local Audit Bill**

**21** In 2011 the Government consulted on its proposals for a new local public audit framework. It published its response in January 2012.

**22** The draft Local Audit Bill was subsequently published in July 2012 for consultation and pre-legislative scrutiny.

**23** This draft Bill sets out:

- the proposed new audit framework for local public bodies;
- the process for the appointment of auditors; and
- and the regulatory framework for local public audit.

**24** The consultation closed on 31 August 2012.

### **2010/11 National Fraud Initiative**

**25** In May 2012 the Audit Commission published the results of the NFI for 2010/11.

**26** 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.

**27** 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 deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
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.

**28** 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 period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

**29** 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).

**30** 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.

**31** 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.

## 2012/13 National Fraud Initiative (NFI)

**32** The NFI Team sent a request for data to all participants' directors of finance in June 2012 and also announced the launch of the Audit Commission's 2012/13 web application.

**33** Participants are required to submit the required data sets, through the secure NFI web application, by 8 October 2012.

## Payment by results

**34** The Audit Commission published Local payment by results on 5 April 2012. This is 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.



**35** 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. 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.

**36** 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.

**37** 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.

**38** 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.

**39** 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.

**40** The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

## **The rights of local electors**

**41** 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.

**42** 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.

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

## NAO role in local VFM studies

**44** 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.

**45** A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

**46** The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

**47** 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

**48** 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.

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

**50** 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 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.

## 2010/11 local government claims and returns

**51** The Audit Commission has recently published a report summarising the results of its certification work in 2010/11. Appointed auditors provided assurance to grant-paying bodies on 2,174 claims and returns for 2010/11, covering £51 billion of expenditure.

**52** The report shows that auditors agreed amendments to claims and returns totalling £47.6 million and issued 509 qualification letters. Across all schemes, 23 per cent of auditors' certificates were qualified.

**53** The housing and council tax benefit subsidy scheme continues to have high levels of amendments and qualification letters. Of the 2010/11 subsidy claims, 72 per cent were amended and 73 per cent had qualification letters.

**54** Auditors reported examples of authorities that had reduced the number of errors, the number of issues requiring attention and certification fees. They highlighted improved working papers, as well as the increased supervision and review of claims and returns.

Given the issues that auditors continue to identify, all authorities should review their arrangements against the Audit Commission's guidance 'Claims and Returns: Good Practice for Authorities', which can be found on the Audit Commission's website.

## **Localism Act – update on standards and conduct arrangements**

**55** On 28 June 2012, DCLG wrote to all principal authorities confirming that the new standards and conduct arrangements apply from 1 July 2012.

**56** The new arrangements, set out in the Localism Act 2011, require authorities to:

- develop a local code of conduct dealing with the conduct of members and co-opted members. DCLG has provided an illustrative example of a local code of conduct;
- maintain and publish a register of interests; and
- appoint an independent person to provide advice to the authority on any allegations it may be considering and to members who may be the subject of the allegation(s). In the letter, DCLG confirms the transitional arrangements for the appointment of the independent person.

**57** DCLG has stated that it also intends to publish a guide to members' pecuniary interests.

## **Public sector internal audit standards**

**58** We have previously advised you about the collaboration of the Chartered Institute of Internal Auditors (IIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA) on the development of public sector internal audit standards.

**59** A draft set of standards has now been produced and have been issued for consultation. These can be found on CIPFA's website. The consultation exercise ends on 14 September 2012.

## Key considerations

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

- Has the Council established a timetable to enable the provision of the NFI data by the deadline of 8 October 2012?
- Has the Council reviewed its arrangements against the Audit Commission's guidance 'Claims and Returns: Good Practice for Authorities'?
- Has the Council introduced the new standards and conduct arrangements required by the Localism Act 2011?
- Has the Council considered responding to the Government's consultation on the draft Local Audit Bill?
- Has the Council considered responding to the consultation on public sector internal audit standards?
- Has the Committee asked officers the questions set out in the Audit Commission's NFI briefing for elected members? Is the Committee satisfied with the answers?
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

## Contact details

**61** If you would like further information on any items in this briefing, please contact either your District Auditor / Engagement Lead or Audit Manager.

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

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