

Corporate Governance Committee Update

South Cambridgeshire District 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 Corporate Governance Committee with a report on progress in delivering my responsibilities as your external auditor. It includes an update on the externalisation of the Audit Practice.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Corporate Governance 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 the Commission website (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.

Paul King

District Auditor

March 2012

Progress report

Financial statements

5 The interim audit visit is currently underway and, as set out in the audit plan:

- key elements of internal audit work are being reviewed;
- walkthrough tests on all key systems are being undertaken; and
- controls' testing of key systems is being completed.

6 To date there are no issues resulting from this work that require reporting to members.

7 Over recent years, the Commission has run Final Accounts Workshops across the country to assist audited bodies in their financial closedown. The workshops are a forum to discuss problem areas from the previous year and the legislative and accounting changes for the current year. Two members of your staff attended events in Cambridge. Subsequent to the workshop, discussions have taken with your staff in respect of the issues and changes identified at the event as part of the closedown preparation.

VFM conclusion

8 My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Authority secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

9 A key element of my conclusion this year will be the way in which the Authority has approached the issue of Housing Revenue Account self financing. My work in this area to date has identified the positive benefits of the joint approach with Cambridge City Council. It has also noted how the Authority has explored and evaluated the various options in areas such as Treasury Management to ensure a stable financial position and to maximise the benefit to the Authority.

Other matters of interest

Housing Revenue Account self-financing determinations

10 As part of the move to Housing Revenue Account (HRA) self-financing the Department for Communities and Local Government (DCLG) carried out a consultation on the relevant determinations. This closed on 6 January 2012.

11 Subsequent to this, on 1 February 2012, the DCLG published five determinations which cover the following.

- Settlement Payments Determination. This sets out the amount each local authority will either pay the Government or receive from the Government on 28 March 2012 in order to exit the current subsidy system, and the way in which the payments will be made.
- Limit on Indebtedness Determination. This places a cap on the amount of housing debt each council may hold.
- Housing Revenue Account Subsidy Amendment Determination for the year 2011/12. This adjusts the subsidy entitlement for this financial year in order to take account of the interest costs or savings arising from the settlement payments. These payments will be made before the end of the financial year.
- Item 8 Credit and Debt Amendment Determination for the year 2011/12. This enables the appropriate charges to be made between the Housing Revenue Account and a council's General Fund to reflect the borrowing costs or savings in this financial year arising from the settlement payments.
- Item 8 Credit and debit Determinations for 2012 onwards. This provides a framework for the Housing Revenue Account ring-fence to continue to operate under self-financing.

12 The content of these determinations have been taken account of in the latest outturn figures for 2011/12, the budget for 2012/13 and the HRA business plan.

Dealing with the economic downturn

13 On 17 November 2011 the Audit Commission published 'Tough Times – Councils' responses to a challenging financial climate'.

14 The report draws heavily on the expertise of the external auditors of each council and also includes new analysis of councils' budget data.

15 The key findings in the report are:

- most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books;
- although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets;
- to meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years; and
- councils are not planning to make significant withdrawals from their reserves this year – some even plan to increase them.

16 The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches ([link.](#))

Procurement Fraud in the Public Sector

17 In November 2011, The National Fraud Agency issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

18 The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

19 The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

Protecting the Public Purse 2011

20 In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 – Fighting Fraud against Local Government.'

21 This report is based on the Audit Commission's annual fraud survey – which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.

22 The report reveals that England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

23 The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts – £22 million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

24 The Commission has therefore developed a single person discount comparator tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average and this can be found on the Commission website ([link](#)).

25 The report found that counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils and, in addition to the above, the National Fraud Authority estimates that housing tenancy fraud could cost up to £900 million each year.

26 The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.

Localism Act 2011

27 On 15 November 2011 the Localism Bill received Royal Assent.

28 The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Corporate Governance Committee ([link](#)).

29 Subject to commencement, key measures of the Act include the following.

- Introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything – provided they do not break other laws. The commencement order was issued earlier than expected on 18 February 2012 following the decision in a recent legal case.
- Giving communities the right to approve or veto – by way of a referendum – Council Tax increases higher than a limit determined by the Government.
- Opening the door for the transfer of power to major cities to develop their areas, improve local services, and boost their local economies.
- Abolishing the Standards Board.
- Clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge.
- Enabling councils to return to the committee system of governance, if they wish, regardless of their size.

- Giving councils greater control over business rates. Councils will have the power to offer business rate discounts, which could help attract firms, investment and jobs.
- Promoting openness regarding the pay of senior officers.
- Allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

30 Many of the measures in the Localism Act are expected to be in place by April 2012.

Openness and Accountability in Local Pay

31 The Localism Act referred to earlier requires local authority pay policies to be openly approved by democratically elected councillors.

32 On 17 November 2011 the Department for Communities and Local Government published guidance which sets out the requirements for councils to publish their remuneration arrangements and approve larger salary packages in an open session of the full council ([link.](#)).

33 Pay policy statements must be in place by 31 March 2012 and Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000.

34 There will be a requirement to publicly justify any big bonuses, above inflation annual pay rises, or hiring a person already in receipt of retirement or severance money and organisations should state in their pay policy statement whether or not they permit such practices.

For information: Police Reform and Social Responsibility Act 2011

35 The Police Reform and Social Responsibility Act received Royal Assent on 15 September 2011.

36 This Act will abolish police authorities in England and Wales and replace them with directly elected police and crime commissioners.

37 The Act requires the police and crime commissioner for a policing area to hold the chief constable to account, while also safeguarding the chief constable's operational independence. A police and crime panel, established by the local authorities in a police area, will provide independent scrutiny of the police and crime commissioner.

38 The first elections of police and crime commissioners will take place on 15 November 2012 and police authorities will be abolished within a week of these elections. All staff and assets will transfer in the first instance to the office of the police and crime commissioner.

Update on the externalisation of the Audit Practice

39 In previous verbal updates I have set out the key points of the externalisation programme and that:

- contracts were to be let from 2012/13 on a three- or five-year basis. The earliest you would be able to appoint your own auditors is therefore the 2015/16 audit;
- the work was split into four regions, comprising ten 'lots'. Each lot would be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total);
- thirteen potential providers were invited to tender following the initial pre-qualification stage and bids were submitted by mid-December 2011, with the announcement of the successful bidders to take place on 6 March 2012, with formal Commission approval planned for late July 2012 following consultation;
- appointments will start on 1 September 2012. As such, the Commission has extended the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission; and.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

40 On 6 March the Audit Commission announced that Ernst & Young were the successful bidder in the Eastern lot with a contract term of five years.

41 Across the country the 10 lots were awarded as follows:

- Grant Thornton (UK) LLP, the North West, West Midlands, London (South) Surrey & Kent, and South West;
- KPMG LLP, Humberside & Yorkshire, East Midlands, and London (North);
- Ernst & Young LLP, Eastern, and South East; and
- DA Partnership Ltd (now called Mazars DA), the North East & North Yorkshire

42 In the press statement announcing the successful bidders the Audit Commission stated that:

'Public bodies are expected to save over £30 million a year for the length of the contracts. Together with additional savings of £19 million a year achieved through the Commission's own internal efficiencies, the result will be an expected £250 million (or 40 per cent) fall in audit fees for most local public bodies over five years.'

43 The consultation process on the final appointment of auditors to individual audits is set out in 'Strategy for making auditor appointments for 2012/13 and future years' which the Audit Commission published in January 2012. This process will commence in April 2012. The document recognises that there could be 'good reasons' why an audited body would seek a different auditor than that proposed and sets out examples that meet that criterion.

44 Further details are available on the Audit Commission's website. I will continue to keep you updated on developments.

45 Against this background, the Audit Practice's focus remains:

- fulfilling the remaining responsibilities – completing audit work for 2010/11 and delivering your 2011/12 audit – to the high standards you expect and deserve; and
- managing a smooth transition from the Audit Practice to your new audit provider.

Key considerations

46 The Corporate Governance Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper, namely has the Authority.

- Considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?
- Used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Circulated the DCLG's plain English guide to the Localism Act to all members?

Contact details

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

48 Alternatively, all Audit Commission reports – and a wealth of other material – can be found on the Audit Commission website:

www.audit-commission.gov.uk.

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