

Corporate Audit Committee Update

Bath and North East Somerset Council

Audit 2011/12

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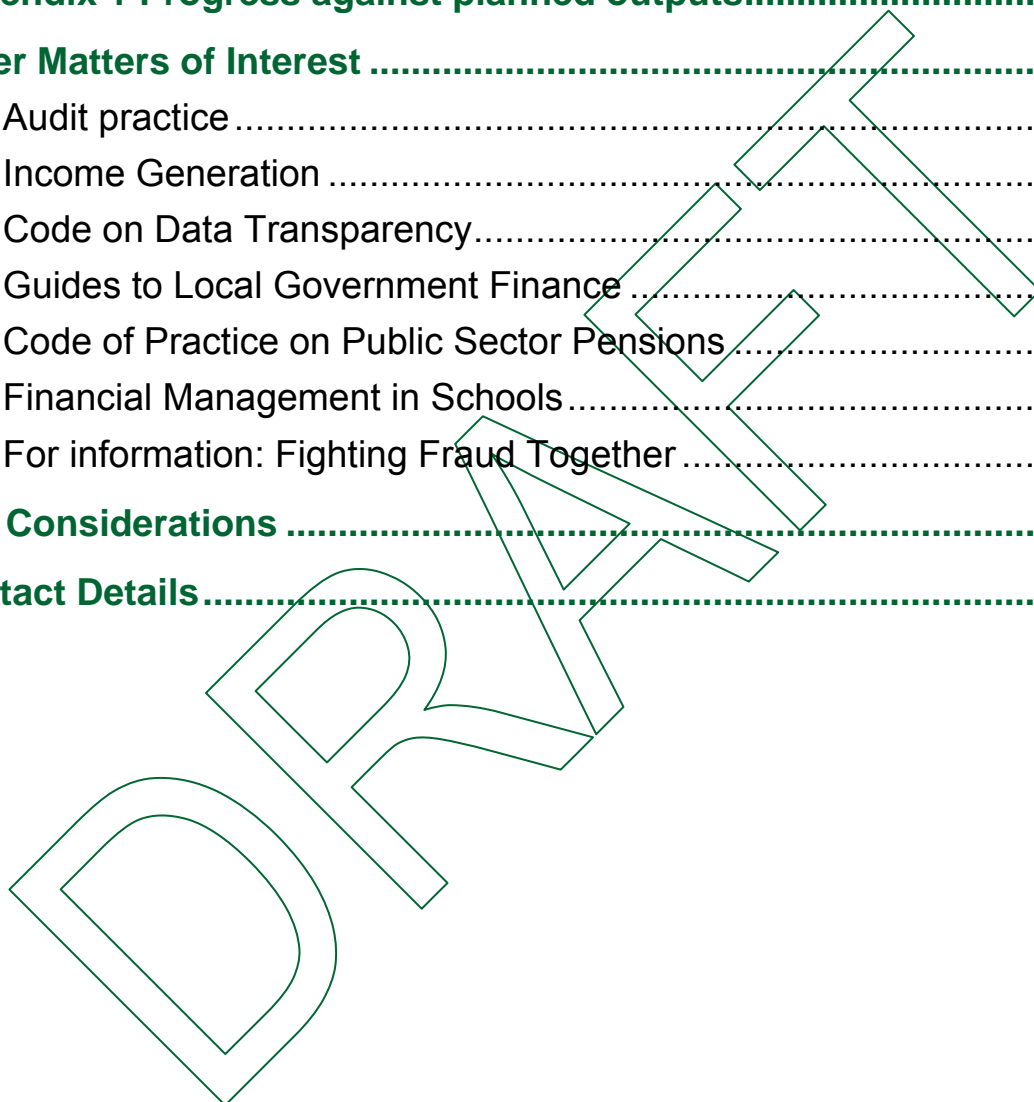
The Audit Commission is a public corporation set up in 1983 to protect the public purse.

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 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 which may be of interest to members of the Corporate 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) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Wayne Rickard
District Auditor
December 2011

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Progress Report

5 I have completed my 2010/11 audit of the accounts and value for money arrangements. My Annual Audit Letter, summarising the key messages from my 2010/11 audit is presented to this meeting of the Corporate Audit Committee.

6 I am completing my work on the 2010/11 grant claims which require audit certification. The outcome of this work will be reported in February 2012.

7 The 2011/12 audit fee was discussed at the February meeting of the Corporate Audit Committee and confirmed in my fee letter dated 5th April 2011. The audit commission has set a scale fee for each audited body. The actual fee is only expected to vary from this where the auditor's assessment of risk is significantly different from 2010/11. The Council's 2011/12 fee is set at the scale fee.

Audit area	Scale fee	Final Fee	Planned fee
	2011/12	2010/11	2010/11
Audit fee	£273,398	£276,913	£303,776

8 The 2011/12 fee was reduced reflecting the Government's decision to abolish comprehensive area assessment and efficiency measures taken by the audit commission centrally.

9 The 2011/12 interim audit commenced in November 2011. I am coordinating our work with that of Internal Audit. During our interim visit, we will:

- review the Council's financial systems and consider the assurances they give us on the figures which will appear in the Council's annual financial statements;
- undertake transaction testing; and
- update our knowledge and evidence of the Council's arrangements to obtain value for money. This will focus on the two key criteria specified for 2011/12 by the Audit Commission i.e.
 - arrangements the Council has in place for securing financial resilience; and
 - arrangements the Council has in place for challenging how it secures economy, efficiency and effectiveness.

Appendix 1 Progress against planned outputs

The following table sets out the key milestones for the coming year.

Area of work	Date report is due	Comments
2011/12 audit		
Audit fees letters	April 2011	Discussed with the Corporate Audit Committee and agreed with the Director of Financial Services
Audit plan	January 2012	
Interim Audit	April 2012	Interim Memorandum to be issued as required.
VFM conclusion	September 2012	
Annual governance report	September 2012	
Auditor's report giving the opinion on the financial statements and the value for money conclusion	September 2012	
Annual audit letter	October 2012	

Other Matters of Interest

Audit practice

10 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

11 The key points are:

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (i.e. four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend 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.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

12 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

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

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

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

Income Generation

15 Income from fees and charges is a key financial area for local authorities with the top ten income streams generating over £7 billion each year nationally.

16 CIPFA has recently produced an updated guide to income generation and much has happened since the earlier editions were published in 2005 and 2008.

17 In 2011, organisations are looking at income in its widest sense as a key factor in their funding equation. The economic downturn has demonstrated the risks associated with excessive reliance on income from fees and charges. However, the Spending Review 2010 has motivated local authorities to evaluate robustly every possible funding source.

18 Rather than just focussing on savings, organisations are increasingly focussing on maximising their income generation opportunities.

19 This new 2011 edition should enable local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at March 2011, reflecting recent legislation and regulations.

Code on Data Transparency

20 On 29 September 2011 the Department for Communities and Local Government (DCLG) published the Code of Recommended Practice for Local Authorities on Data Transparency.

21 Subject to consultation, we understand that Ministers are minded to make this Code a legally binding requirement.

22 The Code requires local authorities to publish public data as soon as possible following production even if it is not accompanied with detailed analysis. Where practical, local authorities should seek to publish in real time. As a minimum, the public data that should be released are:

- expenditure over £500 (including costs, supplier and transaction information);
- senior employee salaries, names (with the option for individuals to refuse to consent for their name to be published), job descriptions, responsibilities, budgets and numbers of staff;
- an organisational chart of the staff structure of the local authority including salary bands and details of currently vacant posts;
- the 'pay multiple' - the ratio between the highest paid salary and the median average salary of the whole of the authority's workforce;
- councillors' allowances and expenses;
- copies of contracts and tenders to businesses and to the voluntary community and social enterprise sector;
- grants to the voluntary community and social enterprise sector should be clearly itemised and listed;
- policies, performance, external audits and key inspections and key indicators on the authority's fiscal and financial position;
- the location of public land and building assets and key attribute information that is normally recorded on asset registers; and

- data regarding the democratic running of the local authority including the constitution, election results, committee minutes, decision - making processes and records of decisions.

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Guides to Local Government Finance

23 CIPFA has recently issued a comprehensive guide to Local Government finance. This guide reflects proposals for academies, HRA self financing, the future of local audit, police and crime commissioners and social care reform.

24 In addition to the above changes, the guide also looks at the impact the recent cuts have had on local authority finances.

25 In addition to the comprehensive guide, a shorter guide has also been prepared which is aimed specifically at members. It provides councillors with a brief overview of key facts, figures and requirements in relation to local government finance in a more user friendly and handy reference format.

Code of Practice on Public Sector Pensions

26 In October 2011 CIPFA published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

27 Pension schemes are growing in complexity and their financial management in the public sector demands appropriate skills, including a knowledge of:

- financial markets and products;
- financial services procurement;
- pensions accounting and auditing;
- actuarial practices;
- investment performance and risk management; and
- the implications of legal and regulatory requirements.

28 It is CIPFA's view that every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

29 Its view is that public sector organisations should also ensure that those charged with pension scheme governance, including audit committees and relevant scrutiny groups, have access to the skills and knowledge they require to carry out this role effectively.

30 CIPFA's Code of Practice has been produced to put these requirements into a formal structure for public sector pension schemes.

Financial Management in Schools

31 On 19 October 2011 the National Audit Office (NAO) published a report covering financial management in local authority maintained schools.

32 Up to 2007/08, schools collectively spent less money each year than they were given, and the sum of unspent primary and secondary school balances peaked at £1.76 billion. As a result, many schools did not need to prioritise efficiency to remain within their budgets.

33 However, more schools are now facing reductions in their budgets in real terms, at the same time as significant changes to qualifications and curricula are being introduced - alongside continuing pressure for improved performance.

34 The NAO found that weak financial management and weak academic performance often go hand in hand. A comparison of Ofsted's judgements of the overall effectiveness of schools with school surpluses and deficits showed that schools in deficit generally performed worse than schools in surplus.

35 The NAO's report continues a number of recommendations for the Department of Education, but nevertheless should prove of interest to local authorities themselves.

For information: Fighting Fraud Together

36 In October 2011, thirty-seven organisations joined forces to launch 'Fighting Fraud Together', a new strategy that aims to reduce fraud - a crime estimated to cost the UK £38 billion every year.

37 The organisations involved include the NHS, the Charity Commission, the Department for Communities and Local Government, HM Revenues and Customs and the Association of Chief Police Officers.

38 It is the first time that government, industry, voluntary groups and law enforcement agencies have joined together on such a large scale to sign a joint commitment to tackle fraud.

39 All thirty-seven partners that have signed up to the 'Fighting Fraud Together' strategy which will contribute to and be accountable for its success.

40 The strategy and its accompanying action plan place a strong emphasis on preventing fraud through greater fraud awareness and self protection, combined with stronger government and industry prevention systems and controls.

41 Examples of the new initiatives include:

- Preventing fraud: Industry and the public sector will develop their intelligence-sharing capabilities to prevent fraud attacks;
- Increasing awareness and reporting: A new research tool will help all sectors provide more targeted prevention advice to the public, particularly vulnerable people, and develop a better understanding of small businesses' vulnerability to fraud and the support they need; and
- A more effective enforcement response: Greater intelligence capabilities of the National Fraud Intelligence Bureau will disrupt fraudsters' activities and rapidly close down the channels through which they operate and launder money.

Key Considerations

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

- Has the Council reviewed CIPFA's guide on income generation and is the Corporate Audit Committee satisfied that all potential income sources have been identified?
- Has the Council adequate arrangements in place to ensure that it complies with the Code of Recommended Practice for Local Authorities on Data Transparency and that all published information is both accurate and complete?
- Have Members been provided with a copy of CIPFA's guide to Local Government finance?
- Has the Council reviewed CIPFA's Code of Practice on Public Sector Pensions and satisfied itself that the arrangements in place are adequate?
- Has the Council reviewed the NAO's report on financial management in schools and developed an action plan where necessary?

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Contact Details

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

44 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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