

Corporate Audit Committee Update

Bath and North East Somerset 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 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 Corporate Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider when assessing 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

January 2012

Progress Report

5 The following table sets out a commentary against the key audit milestones for your audit in 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	Presented to the February meeting of the Corporate Audit Committee. Two plans are presented, one for the audit of the Council and one for the audit of Avon Pension Fund.
Interim Audit	April 2012	Interim Memorandum to be issued as required. Our interim audit of financial systems and arrangements is underway.
VFM conclusion	September 2012	Main findings will be reported in the Annual governance report.
Annual governance report	September 2012	There will be two annual governance reports, one for the Council and one covering the Avon Pension Fund.
Auditor's report giving the opinion on the financial statements and the value for money conclusion	September 2012	There will be a separate auditor's report giving the opinion on the Pension Fund accounts and a report giving the opinion on the Council's accounts.
Annual audit letter	October 2012	Overall summary of the audit.

Other Matters of Interest

2011/12 Final Accounts Workshops

6 We invited your finance staff to a workshop that will help them to prepare your financial statements for 2011/12.

7 The closest events were at Westward House in Bristol on 24 January and 22 February 2012. Members of your accounts team attended these events.

Dealing with the economic downturn

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

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

10 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.

11 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.

Procurement Fraud in the Public Sector

12 The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

13 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.

14 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

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

16 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.

17 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.

18 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 - £22million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

19 We have 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 our website.

20 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.

21 The report concludes with a checklist that organisations may find 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.

22 In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

For information: Police Reform and Social Responsibility Act 2011

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

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

25 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.

26 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.

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 Audit Committee.

29 Subject to commencement, key measures of the Act include:

- 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;
- 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; and
- promoting openness regarding the pay of senior officers.

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.

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.

DCLG publishes consultation response

35 DCLG published the government's response to the 'Future of Local Audit' consultation on 4 January 2012. This outlines the new arrangements for the audit of local public bodies once the Commission is abolished. The Commission has welcomed the government's response but believes there is still further work to do in a number of areas. These have been highlighted in a statement the Audit Commission has published on its website.

36 DCLG's way forward with the new framework is to:

- hold further discussions with local authorities, other local public bodies and the audit sector to flesh out the underlying detail of the framework, and how it might be implemented; and
- publish a draft Bill for pre-legislative scrutiny in Spring 2012, which allows for examination and amendments to be made before formal introduction to Parliament; and in advance of introduction of an Audit Bill as soon as Parliamentary time allows.

Key Considerations

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

- Has the Council considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?
- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Has the Council* completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Has the Council circulated the fraud briefing to all school governors?
- Has the Council circulated the DCLG's plain English guide to the Localism Act to all members?
- Has the Council reviewed DCLG's Government response to the future of local audit consultation ?

Contact Details

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

39 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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