

# Audit Committee update - 9 July 2012

Lincolnshire County 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. 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 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.

Tony Crawley  
District Auditor  
29 June 2012

# Progress report

## Key systems controls

**5** Our interim audit work on both the main County Council audit and the pension fund has been completed satisfactorily. There are no matters arising that we need to report to you.

## Financial Statements

**6** Members will be aware of the action plan agreed earlier this year with the service provider to address the problems which led to the delay in completing the audit last year.

**7** Officers are now reporting that good progress has been made on the year end closedown and the quality assurance (QA) programme is now complete apart from capital. The accounts will be signed by the section 151 officer on 28 June 2012.

**8** Some changes to capital aspects of the accounts may be needed but the issues are not expected to be significant at this stage. We plan to start the main audit of the Council accounts on 16 July 2012 when the QA of capital is complete.

**9** We started work on the pension fund accounts much earlier, in June 2012, focussing on the investments verification and IAS 19 work, prior to receipt of the signed accounts. Progress has been good and we expect to complete the pension fund audit work very shortly. There are no matters arising so far that we need to draw to your attention.

**10** We will report the findings of our work on both the pension fund and the Council's accounts in our annual governance reports under ISA260 to the meeting of the audit committee on 24 September 2012.

## VFM conclusion

**11** Last time we reported that our detailed risk assessment had been completed and we had not identified any further risks or work required beyond our planned routine work covering financial resilience and overall arrangements for securing economy, efficiency and effectiveness.

**12** The position is unchanged.

# Other Matters of Interest

## 2012/13 audit fees

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

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

**14** 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

**15** 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.

**16** 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.

**17** 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

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

**19** 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.

**20** 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.

**21** 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.

**22** 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).

**23** 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.

**24** 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

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

**26** 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.

**27** 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

**28** 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.

**29** 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.

**30** 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.

**31** 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.

**32** 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.

**33** 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.

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

## The rights of local electors

**35** 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.



**36** 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.

**37** 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**

**38** 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.

**39** 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.

**40** 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.

**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 elected members 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 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.

- 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

**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).

Tony Crawley

District Auditor

0844 798 4098

07966 184819

[t-crawley@audit-commission.gov.uk](mailto:t-crawley@audit-commission.gov.uk)

Mike Wood

Audit Manager

0844 798 4056

07946 592339

[m-wood@audit-commission.gov.uk](mailto:m-wood@audit-commission.gov.uk)

If you require a copy of this document in an alternative format or in a language other than English, please call:  
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Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946