

Audit Committee update

London Borough of Hammersmith & Fulham

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

Jon Hayes

Engagement Lead

June 2012

Progress report

Financial statements

5 My audit of the financial statements is scheduled to take place in June and August. I will report the results to the September Audit Committee.

6 I also received a draft of Hammersmith & Fulham Pension Fund financial statements in early June and have commenced the audit. The results of this audit will be reported to the September Audit Committee.

7 I will also be auditing the Wormwood Scrubs Charitable Trust financial statements. We have undertaken to complete this audit earlier than in previous years to ensure the transfer of your audit supplier does not cause any delays. The results of this audit will be reported to the September Audit Committee. The Council can assist me in this by ensuring submission of the draft financial statements in a timely manner.

VFM conclusion

8 My work on value for money is complete. Subject to any additional information received up to the date of my opinion, I anticipate issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness.

Grant claims

9 I am planning to complete the certification of all grant claims prior to the change in your audit supplier on 1 November. The Council can assist me in this by ensuring all claims that require external auditor certification are submitted in a timely manner.

Housing benefits

10 I have completed the initial testing of the housing benefits subsidy claim. My testing has been complicated by long periods taken to process amendments, known as changes in circumstances, to housing benefit and council tax benefit claims. DWP data, based on the first three quarters for 2011/12, shows the speed of processing changes in circumstances at the Council was 32 days which is relatively high when compared with other authorities. Delays in processing changes in circumstances can have the following implications on my certification work:

- Slow processing increases the incidence of local authority error and overpayments, reducing the amount of subsidy authorities can claim from the DWP.
- Slow processing can increase the complexity of cases, increasing the time required to complete certification work.

Other matters of interest

Update on outsourcing the work of the Audit Practice

11 Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies.

12 It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

13 Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously.

Update on the residual Audit Commission

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

15 The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

2012/12 audit fees

Fee scales for 2012/13 audits of local government bodies

16 Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government 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.

2010/11 National Fraud Initiative

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

22 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.

23 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.

24 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.

25 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).

26 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.

27 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

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

29 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.

30 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

31 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.

32 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.

33 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.

34 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.

35 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.

36 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.

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

The rights of local electors

38 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.

39 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.

40 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

41 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.

42 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.

43 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.

44 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

45 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.

46 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.

47 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

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

- Does the Committee understand the reason for the slow processing of Housing Benefits and Council Tax Benefits changes in circumstances?
- 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

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

50 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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- any third party.



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