

Audit Committee Update

January 2012

Nottingham City 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.
- 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.

Sue Sunderland

District Auditor / Engagement Lead

6 January 2012

Progress Report

Financial statements

5 My detailed planning and risk assessment update work has started for the audit of your 2011/12 financial statements. The key milestones reported in my November 2011 update report remain unchanged.

6 Letters were sent in November 2011 to your Deputy Chief Executive & Corporate Director for Resources and Audit Committee Chair (appendix 1) making enquiries about certain management processes. Responses to these letters will be used to inform our planning assessment.

VFM conclusion

7 Planning work is in progress. Detailed work for the VFM conclusion will be started in January 2012.

Audit certificate (2010/11 audit)

8 As reported at the November 2011 meeting, I issued audit certificates confirming completion of my 2009/10 and 2010/11 audits on 11 November 2011.

9 My annual audit letter for 2010/11 forms a separate agenda item for the January 2012 Audit Committee meeting.

Grant certification work (2010/11 audit)

10 The following claims and returns for 2010/11 having either a November or December 2011 deadline for audit were certified ahead of the specified deadline:

- housing and council tax benefits return (November);
- HRA subsidy return (December); and
- school centred initial teacher training return (December).

11 My 2010/11 certification work is now complete. I intend reporting the outcome and findings from this programme of work at the next Audit Committee meeting.

Other areas of work (2010/11 audit)

12 Specific 'reasonable assurance' work planned for December 2011 on the Council's financial return to the Homes and Communities Agency covering funding received for low carbon infrastructure work in the Nottingham Southside area is in progress.

Other Matters of Interest

2011/12 Final Accounts Workshops

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

14 The closest events for Nottingham City Council are at Nottingham University on 9 and 21 February 2012. Please contact Paul Hutchings, your Audit Manager, if you would like to discuss the events in more detail.

Dealing with the economic downturn

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

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

17 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.

18 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

19 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.

20 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.

21 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

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

23 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.

24 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.

25 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.

26 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.

27 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.

28 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.

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

Localism Act 2011

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

31 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 Audit Committee.

32 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;
- promoting openness regarding the pay of senior officers; and
- allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

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

Openness and Accountability in Local Pay

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

35 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.

36 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.

37 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.

Housing Revenue Account self financing determinations

38 The Department for Communities and Local Government (DCLG) has recently published a consultation exercise on the Housing Revenue Account (HRA) self-financing determinations.

39 The consultation - which closes on 6 January 2012 - can be found on the DCLG's website and covers five draft determinations, the key ones of which are:

- the amount each local authority will either pay the government or receive from the government on 28 March 2012 to exit the current subsidy system, and the way in which the payments will be made; and
- the cap on the amount of housing debt each council may hold.

Update on the externalisation of the Audit Practice

40 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.

41 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.

42 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.

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

44 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.

Contact Details

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

46 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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Appendix 1 Audit Committee Chair letter

21 November 2011

Councillor Ken Williams
Audit Committee Chair
Nottingham City Council
Loxley House
Station Street
Nottingham
NG2 3NG

Dear Ken

Audit of Nottingham City Council Financial Statements for the year ended 31 March 2012 - understanding how the Audit Committee gains assurance from management

From our cumulative audit knowledge and experience, I have a good understanding of how the Audit Committee (as 'those charged with governance') gains assurance over management processes and arrangements. This enables me to deliver an efficient audit, and can reduce the time Council staff spend responding to auditor queries.

Auditing standards require me to make certain formal enquiries each year of 'those charged with governance' to help update my understanding of how the Audit Committee gains assurance from management. The purpose of this letter is to set out my enquiries in the detailed questions that follow. I ask that you provide me with responses on behalf of the Council's Audit Committee. Where your response to questions 3 to 5 is 'yes', please provide brief details to support your answer.

1) How do you exercise oversight of management's processes in relation to:

assessing the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);

- identifying and responding to risks of fraud in the authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the authority code of conduct); and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011/12?

3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011/12?

4) Are you aware of any actual or potential litigation or claims that would affect the financial statements?

5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the authority's ability to continue as a going concern?

In addition to the above questions about how you gain assurance from management, I have included at appendix 1, 8 questions about your views on fraud.

Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

Please provide a response by Friday 16th December 2011 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Paul Hutchings

Audit Manager

Appendix 1

No.	Questions for those charged with governance.	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the 2011/12 financial year?	
2	<p>Do you suspect fraud may be occurring within the authority?</p> <p>have you identified any specific fraud risks within the authority?</p> <p>do you have any concerns that there are areas within your authority that are at risk of fraud?</p> <p>are there particular locations within the authority where fraud is more likely to occur?</p>	
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <p>if not where are the risk areas?</p> <p>what other controls are in place to help prevent, deter or detect fraud?</p>	
4	<p>How do you encourage staff to report their concerns about fraud?</p> <p>what concerns about fraud are staff expected to report?</p>	
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your authority?</p> <p>how are the risks relating to these posts identified, assessed and managed?</p>	
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>how do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	
7	<p>Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?</p> <p>are there particular balances where fraud is more likely to occur?</p> <p>are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority?</p> <p>could a false accounting entry escape detection? If so, how?</p>	

	are there any external fraud risk factors which you consider to be a high risk of fraud?	
8	Are you aware of any organisational, or management pressure to meet financial or operating targets? are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	