

Progress report and briefing

February 2012

Brighton and Hove City Council

Audit 2011/12

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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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Audit progress

Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering my responsibilities as the Council's external auditor.

2 If you require any more information about the issues included within this briefing, please feel free to contact me as your District Auditor or a member of the local audit team. Contact details are set out at the end of this update.

2010/11 audit

3 My work on the 2010/11 audit is now complete. I formally concluded the audit and issued the certificate on 28 September 2011. I am presenting the final report from my 2010/11 programme of work, my annual report on the certification of claims and returns, to this February meeting of the Audit Committee.

2011/12 audit

Financial statements

4 The proposed timing for my audit work is set out in table 1.

Table 1: **Audit time line**

Work flow	Date of completion	Reports/Progress
Documentation and walkthrough of key financial systems	January 2012	Complete. I will report weaknesses in internal control as part of my 2011/12 opinion audit plan to the April meeting of the Audit Committee. Any recommendations for the improvement of internal control will be made in my 2011/12 annual governance report.

Work flow	Date of completion	Reports/Progress
<p>Audit Commission controls testing. Review of Internal Audit controls testing.</p>	<p>April 2012</p>	<p>I have liaised with Internal Audit to plan my detailed testing of controls in your key financial systems. Work is now being undertaken by Internal Audit which I intend to rely on.</p> <p>I will draw control weaknesses to your attention in my 2011/12 audit opinion plan which I will present to the April 2012 meeting of the Audit Committee.</p> <p>Any recommendations for the improvement of internal control will be made in my 2011/12 annual governance report.</p>
<p>Post statement audit and financial statements opinion.</p>	<p>By 30 September 2012</p>	<p>As in 2010/11, I intend to deliver my work in a shorter period of time using a larger audit team. It is my intention that the majority of my post-statement work will be delivered during July 2012. This approach in general worked well last year and has benefits both for officers and my team.</p> <p>The main delay in delivering my post-statement audit last year was caused by difficulties in testing detailed transactions produced by your payroll system. I reported in my last update that I planned to undertake this work early in the audit cycle and before you have produced your 2011/12 financial statements. This work is now underway. I will continue to keep you updated on progress.</p>

Work flow	Date of completion	Reports/Progress
		<p>The results of my work on the 2011/12 financial statements will be reported in my annual governance report which I will present to the September 2012 Audit Committee meeting.</p>
<p>Value for money (VFM) work.</p>	<p>By 30 September 2012</p>	<p>I will report the results of my detailed work to inform the 2011/12 VFM conclusion in my 2011/12 annual governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2012. My aim is to complete this work ahead of that deadline and present key findings and recommendations to management and the Audit Committee.</p>

VFM conclusion

5 I assess whether the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

6 From 2010/11, the Commission introduced new requirements for VFM audit work at local authorities. Auditors give their statutory VFM conclusion based on the following two criteria specified by the Commission.

Table 2: Specified criteria for the auditor's VFM conclusion

Criteria 1	Criteria 2
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
Focus of criteria for 2011/12	
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

7 I am planning my approach to my work to inform the 2011/12 VFM conclusion and will discuss the precise nature of my work in this area with officers.

Other matters

Outsourcing of audit work

8 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. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

9 The key points are as follows.

- 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 (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private sector providers the opportunity to compete for the contracts.
- Thirteen potential providers were invited to tender following the initial pre-qualification stage. The deadline for return of the tenders was 16 December 2011 and 13 accountancy firms have been accepted as bidders for the work. Tenders received are currently being evaluated. The Commission plans to publish the results of the outsourcing exercise at noon on March 6 and issue a news release to the media. I will inform

you of the winning bidder for the contract containing the Council's audit as soon as I am able to do so after that.

- The Commission published, in January 2012, the consultation process to be followed for individual audit appointments. For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The events will take place in May 2012.
 - Appointments will start on 1 September 2012. As such, the Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment.
 - Audit Practice staff in each lot area will transfer to the successful bidders on 31 October 2012.
- 10** Against this background, the Audit Practice's focus remains.
- Fulfilling our remaining responsibilities, 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.

2012/13 work programme and audit fees

11 Consultation on the proposed work programme and audit fees started on 5 September 2011 and ended on 24 October 2011. In line with the Commission's aim to reduce its costs by £70 million (30 per cent) over a three-year period, the 2011/12 scale fees will be reduced by 10 per cent for principal bodies. Publication of the final programme and fees will be in April 2012.

Audit Commission publications

Auditing the Accounts 2010/11

12 In December 2011 the Audit Commission published a report - Auditing the Accounts 2010/11 - which summarises its findings of the accounts audits in 2010/11. A copy of the full report can be found at <http://www.audit-commission.gov.uk/audit-regime/support-guidance/auditing-the-accounts/Pages/auditing-the-accounts-1011.aspx>.

13 The report covers the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local public bodies. In addition to auditors' work on the 2010/11 financial statements, the report also covers:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

14 Auditors were able to give opinions on the accounts by the target date of 30 September 2011 at most organisations and this performance compares well with the previous year.

15 However, the challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year to eighteen this year, where the auditor's opinion was still outstanding after 31 October. There was also a significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.

16 On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'.

17 This briefing supplements the report on the 2010/11 accounts referred to above and focuses on a long-running debate of how to make local government accounts easier to understand. A full copy of the briefing can be found at <http://www.audit-commission.gov.uk/audit-regime/support-guidance/Pages/ifrs.aspx>.

18 While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are a poor way of communicating the key information to lay readers.

19 The briefing notes that:

- elected members and local people would benefit from having access to well-presented extracts from the accounts, which would provide the key information on each authority's financial position and performance;
- the accounting profession and the Audit Commission could do more to encourage auditors and preparers of accounts to reduce clutter in statutory accounts; and
- each authority could do more to ensure their accounts are shorter and more accessible. Those preparing accounts need to look critically at the previous year's accounts. They should identify how these accounts could be sharper and more focused before starting work on the next set.

20 The briefing concludes by identifying possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

21 The Audit Commission is seeking views on the issues raised within the briefing and has invited comments by 16 March 2012. Further information on this is available on the Audit Commission's website.

Managing Workforce Costs

22 The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

23 The joint report (which can be found on the Audit Commission's website at <http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/WorkinProgress.aspx>) is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

24 As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

25 Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

26 The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;

- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and
- a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.

27 The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.

28 The questions are in two parts.

- The information that should be available to members about the workforce.
- The savings strategies councils could follow in the light of that information.

Joining up health and social care

29 On 1 December 2011 the Audit Commission published the second in a series of briefings looking at adult social care.

30 'Joining Up Health and Social Care - Improving Value for Money Across the Interface' shows significant variations in indicators such as the levels of emergency admissions to hospital. This raises questions about how well services are being integrated to meet the preferences of older people. Despite the focus for many years on improving joint working across the NHS and social care, progress remains patchy. A copy of the full report can be found at <http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/joininguphealthandsocialcare.aspx>.

31 At a time when the whole of the public sector must find significant savings, the report says that integrated working offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' - where savings made by one organisation or sector simply create costs for others.

32 The briefing offers guidance to local partnerships, setting out a list of questions to consider and suggestions for interventions that might help. The briefing also includes a number of case studies which show how some areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.

33 The Audit Commission has developed a tool to accompany the briefing that allows NHS and social care partnerships to benchmark their performance against others.

CIPFA's Prudential Code for Capital Finance

34 CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required.

- PFI schemes to be included on organisations' balance sheets.
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

35 The code also includes guidance on the treasury management implications of the housing self-financing reforms.

36 Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

37 To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

38 The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

39 The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

Contacts

40 The key members of the audit team for the 2011/12 are set out below.

Table 3: **Audit team contacts**

Role	Name	Contact Details
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