

Audit **Committee** **update**

Wirral 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 contains the latest national issues and information and is a supplement to the paper already circulated to members for the Committee meeting on 14 June 2012

Mike Thomas
District Auditor
14 June 2012

Update on outsourcing the work of the Audit Practice

3 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.

4 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.

5 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

6 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.

7 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.

Other matters of interest

Public Sector Internal Audit Standards

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

9 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.

10 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

11 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.

12 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.

13 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.

14 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.

15 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.

16 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.

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

The rights of local electors

18 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.

19 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.

20 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

21 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.

22 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.

23 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.

24 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

25 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.

26 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.

27 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

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

- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

Contact details

29 If you would like further information on any items in this briefing, please contact either your District Auditor

30 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Mike Thomas

District Auditor

0844 798 7043

07879 667 712

m-thomas@audit-commission.gov.uk

Liz Temple-Murray

Audit Manager

07769 887 358

l-temple-murray@audit-commission.gov.uk

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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