

# GPS assurance

Local Government Sector

## Audit committee briefing First issue introduction

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On 1 November 2012, and as part of the wider abolition of the Audit Commission, Audit Practice staff transferred to Ernst & Young, already an established professional service provider to Government and the Public sector.

The transferred public sector audit specialists now form part of Ernst & Young's national Government and Public Sector (GPS) team and their audit expertise is now supported by a rich breadth of wider support services and professional resources.

We recognise the value in strong local relationships alongside our corporate aim of delivering quality in everything we do and so are looking forward to continuing to support our local clients. The provision of regular briefings to our client Audit Committees on issues which may have an impact upon them, the wider public sector and the audits that we undertake is one of the ways that we hope you will find useful in an environment that is constantly changing and evolving.

We hope that you find this briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



# Local Government Sector

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## Government policy

### Draft Local Audit Bill

On 24 October the Department for Communities and Local Government (DCLG) published the Draft Local Audit Bill: Summary of consultation responses. The document summarises the one hundred and sixty-two responses received to DCLG's consultation on the Draft Local Audit Bill.

The Draft Local Audit Bill ad-hoc Committee has published the uncorrected transcripts from the evidence sessions on 30 October and 6 November. Evidence sessions are continuing and will include representatives from firms, ACCA, CIPFA and the Financial Reporting Council.

### Improving Local Government Transparency

Following publication of The Code of Recommended Practice for Local Authorities on Data Transparency, the DCLG is consulting on regulations to require local authorities to publish data in accordance with the Code. The regulations will require local authorities to publish specified data within the Code and also to publish the information in the manner and form specified by the Code.

The consultation closes on 20 December 2012. More information is available here <https://www.gov.uk/government/consultations/improving-local-government-transparency>

### Dismissal of council chief executives and finance directors

Regulation 7 of The Local Authorities (Standing Orders) (England) Regulations 2001 requires an authority to appoint a 'designated independent person' to investigate proposals for disciplinary action against the chief executive, monitoring officer or chief finance officer because of misconduct, disciplinary issues or poor performance. Where appointed, the authority must pay 'reasonable remuneration' to the designated independent person.

On 9 November the Secretary of State for Communities and Local Government announced his intention to remove the requirement for councils to appoint a designated independent person. Instead the Department for Communities and Local Government (DCLG) proposes that a decision by full council is sufficient in such cases.

The DCLG plans to consult on the proposed changes to the regulations before they are made in Parliament.



## Regulation and inspection

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### **VFM profiles tool**

The Audit Commission has published a redeveloped version of its VFM profiles tool, using a new software platform. The new profiles closely resemble the previous version, although users may note some formatting changes.

The councils' version of the profiles tool has been updated with 2012/13 planned expenditure data. This data comes from the revenue account data published by DCLG in July. Much of the other spending data in the VFM profiles is still based on the 2010/11 revenue outturn data. The Audit Commission expects to update the VFM profiles with the 2011/12 expenditure outturn data for local government and fire and rescue authorities in January 2013.

The VFM profile tool is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

### **Whole of Government Accounts – 2010/11 audited accounts published**

On 31 October HM Treasury published the audited Whole of Government Accounts (WGA) for the year ended 31 March 2011. The National Audit Office (NAO) has issued a qualified opinion on the accounts, highlighting a number of limitations with the WGA.

As in 2009/10 the NAO has again raised the following key issues with the WGA:

- ▶ **Definition and application of the account boundary** – although the Bank of England has been included in the 2010/11 WGA, publicly owned banks and Network Rail which, in the opinion of the Comptroller and Auditor General, are owned and controlled by government, continue to be excluded.
- ▶ **Valuation of local authority infrastructure assets** – the NAO has also qualified the accounts due to the inconsistent application of accounting policies such as the valuation basis for infrastructure assets. Infrastructure assets are currently held by local government bodies at historic cost, whereas those held by central government bodies are valued at depreciated replacement cost.
- ▶ **Lack of evidence supporting the completeness of the elimination of intra-government transactions and balances** – the NAO has identified a continuing issue with the completeness of intra-government transactions and also mismatches between the amounts reported.

Additionally for 2010/11, the NAO has qualified the WGA due to a lack of evidence supporting the completeness and valuation of schools' assets, in particular the omission of some local authority maintained schools and academies from the WGA.

CIPFA/LASAAC set out a proposed way forward on accounting for schools assets and transport infrastructure assets in its recent consultation on the 2012/13 Code update and 2013/14 Code.

The proposals for schools were based on the initial conclusions of the CIPFA/LASAAC Working Party – Accounting for Schools in Local Government. The proposed approach adapted the single entity financial statements to include the income, expenditure, asset, liabilities, reserves and cash flows of schools' governing bodies within the control of local authorities. The proposal set out that, as local authorities have the power to govern the financial and operating policies of community and community special schools, these categories of school should always be included within the Council's financial statements. For other categories of school it indicated that this change would require careful consideration on a case by case basis of the nature of control exercised by the Council.

Following responses to the consultation no changes are now proposed, although a further review and discussions with the various stakeholders is ongoing.

CIPFA/ LASACC are also separately proposing changes to transport infrastructure assets which will require Councils to account for them on a depreciated replacement cost basis from 2014/15

**Action: Those Charged With Governance may wish to ask if officers responsible for preparation of the Council's financial statements are aware of the above CIPFA proposals.**

## **Protecting the Public Purse 2012 – Audit Commission publication**

On 8 November 2012, the Audit Commission published Protecting the Public Purse 2012 (PPP).

The key message from the Protecting the Public Purse report is that Local Government bodies are targeting their investigative resources more efficiently and effectively. In 2011/12:

- ▶ They detected more than 124,000 cases of fraud, with a value of £179mn
- ▶ The number and value of detected fraud cases are broadly similar to the figures we reported last year, with only a 2 to 3 per cent variation.
- ▶ Housing and council tax benefit frauds accounted for more than half of the total fraud losses detected, to a value of £117mn.
- ▶ They detected nearly £21mn of false claims for council tax discounts.
- ▶ They detected 187 cases of procurement fraud amounting to more than £8mn.

- ▶ Tenancy fraud accounts for the largest losses from fraud in local government. Research shows that:
  - ▶ An estimated 98,000 social housing homes in England are subject to housing tenancy fraud
  - ▶ Councils recovered nearly 1,800 homes from tenancy fraudsters last year, with a total replacement value of nearly £264mn
  - ▶ Most detected tenancy fraud (69 per cent) is in London, even though the capital accounts for only 27 per cent of all council housing in England
  - ▶ Councils outside London increased tenancy fraud detection by more than a quarter, reflecting their increasing commitment to tackle this fraud.
- ▶ Councils' counter-fraud professionals recognise that more needs to be done to tackle emerging fraud risks, including those relating to:
  - ▶ Business rates
  - ▶ Social Fund payments and Local Welfare Assistance
  - ▶ Right to Buy discounts
  - ▶ Local Council Tax Support
  - ▶ Schools
  - ▶ Grants

**Action: Those Charged With Governance may wish to use the checklist included in the Audit Commission report to review their counter-fraud arrangements.**

## **Care Quality Commission (CQC)**

CQC are consulting on a number of proposals:

- ▶ 2013-16 CQC strategy
- ▶ Fee strategy

The second consultation looks at the long-term strategy for the Care Quality Commission's fees and the changes they propose to make to them from 1 April 2013 to 31 March 2014. Both consultations are available here: <http://www.cqc.org.uk/public/sharing-your-experience/consultations>.

## **OFSTED**

OFSTED, the Care Quality Commission, HMI Probation, HMI Prisons, and HMI Crown Prosecution Service Inspectorate are exploring how they can best use their resources and powers as inspectorates to build an effective joint inspection framework to evaluate the multi-agency arrangements for the help and protection of children.

More information is available here: <http://www.ofsted.gov.uk/resources/development-of-joint-inspection-care-quality-commission-of-services-for-looked-after-children-and-ca>



# Local Government

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## Finance

The Government has recently confirmed key policy decisions relating to business rates retention proposals in the recently enacted Finance Act. The Government's Policy statement can be found here: <https://www.gov.uk/government/publications/business-rates-retention-policy-statement>.

## Council Tax and NNDR

CIPFA has published a useful article that explores the changes to council tax and business rates. It highlights that the changes will increase the level of instability in the forecast of resources and the interaction of both with economic growth will increase the associated risks. Local authorities will need to take all of this into account to estimate potential future business rates growth and demand for council tax support.

It suggests five key steps that every local authority should be undertaking now:

### 1. Understand the changes

Keeping up to date involves accessing the right information from the web and having regular conversation with those around you.

### 2. Finance and revenues working closely together

For example, finance teams will want to know the details held regarding business rates appeals in order to place contingencies within the budget.

### 3. Exploration of options

What are the options available for delivery of the scheme, how can savings be made and how can financial risk be minimised through for example, Pooling.

### 4. Modelling

Modelling will be an essential part of the process of decision making allowing organisations to run various simulations of how changes in funding will impact on their income streams.

### 5. Forecasting

The new scheme brings with it not only increased opportunity for rewards but also increased financial risk should forecasts be inaccurate.

## Local Government Pension Scheme

### Local Government Pension Scheme investment regulations

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) require that Local Government Pension Schemes spread funds and risks across a number of different types of investment, and sets limits on the proportion of funds that can be invested in each type of investment.

On 6 November DCLG published its consultation on proposals to amend the Investment Regulations to provide greater flexibility in partnership investments. This would allow pensions schemes greater freedoms to invest in infrastructure projects. Details can be found here: <https://www.gov.uk/government/consultations/local-government-pension-scheme-investment-in-partnerships>.

### Public health

From April 2013 local authorities will have a key role in improving the health of their local population, working in partnership with clinical commissioning groups, and others, through health and wellbeing boards in their localities.

They will be responsible for commissioning and collaborating on a range of public health services and for advising the commissioners of local NHS services.

The Department of Health has published factsheets on health intelligence requirements for local authorities and the actions local areas may wish to take to support their new public health duties from an information and intelligence perspective.

More information is available here: <http://www.dh.gov.uk/health/2012/09/health-intelligence/>

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