



## **NOTICE OF MEETING**

### **Governance & Audit Committee**

**Tuesday 28 June 2011, 7.30 pm**

**Council Chamber, Fourth Floor, Easthampstead House, Bracknell**

### **To: The Governance & Audit Committee**

Councillor Ward (Chairman), Councillor Wade (Vice-Chairman), Councillors Allen, Ms Brown, Heydon, McCracken, Thompson, Worrall and Mr G S Anderson

### **cc: Substitute Members of the Committee**

Councillors Mrs Ballin, Blatchford, Mrs Hayes, Leake, Mrs McCracken and Mrs Temperton

ALISON SANDERS  
Director of Corporate Services

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**Governance & Audit Committee**  
**Tuesday 28 June 2011, 7.30 pm**  
**Council Chamber, Fourth Floor, Easthampstead House,**  
**Bracknell**

**AGENDA**

Page No

1. **Apologies for Absence**

To receive apologies for absence and to note the attendance of any substitute members.

2. **Declarations of Interest**

To receive any declarations of personal or prejudicial interests, and the nature of that interest, in respect of any matter to be considered at this meeting.

3. **Minutes - 22 March 2011 and 25 May 2011**

To approve as a correct record the minutes of the meetings of the Committee held on 22 March 2011 and 25 May 2011.

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4. **Urgent Items of Business**

Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.

5. **Update on progress - Certification of Claims and Returns**

To receive an update on the actions agreed in response to the Certification of Claims and Returns Annual Report and internal Audit Report on Housing and Council Tax Subsidy.

9 - 34

6. **Future of Local Public Audit**

To consider a report which contains details of the Government consultation paper 'Future of local public audit' which proposes a regulatory system for local public audit that is similar to that for private company audit under the Companies Act 2006, and to agree the Council's response to the consultation paper.

35 - 114

7. **Internal Audit Annual Assurance Report 2010/11**

To consider the Head of Audit's annual assurance report which is required under the CIPFA Code of Practice for Internal Audit in Local Government. This is timed to support the Annual Governance Statement which accompanies the Council's annual accounts.

115 - 136

8. **Annual Governance Statement**

To consider the Annual Governance Statement (AGS) 2010/11 and the Action Plan 2011/12 to address weaknesses identified in the AGS.

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9. **Town Centre Land Disposals**

To consider a report which proposes amendments to the Council's Constitution to permit the Bracknell Town Centre Regeneration Committee to approve the disposal or acquisition of land in connection with the re-development of Bracknell Town Centre, and to amend delegated authority to the Chief Officer: Property to authorise land disposals.

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**GOVERNANCE & AUDIT COMMITTEE  
22 MARCH 2011  
7.30 - 8.47 PM**



**Present:**

Councillors Thompson (Vice-Chairman), Beadsley, Blatchford, Edger, Leake, McCracken and Mrs McCracken

**Apologies for absence were received from:**

Councillors Ward (Chairman) and Gordon Anderson, Independent Member

**VICE CHAIRMAN, COUNCILLOR THOMPSON, IN THE CHAIR**

**33. Declarations of Interest**

There were no declarations of interest.

**34. Minutes - 25 January 2011**

**RESOLVED** that the minutes of the meeting held on 25 January 2011 be approved as a correct record and signed by the Chairman.

**35. External Audit Matters**

Phil Sharman, District Auditor presented the Audit Plan 2010/11, the Annual Fee 2011/12 Letter and the Audit Commission publication 'A new approach to value for money audit'.

The Audit Plan 2010/11 set out the audit work which the District Auditor proposed to undertake for the audit of financial statements and the value for money conclusion 2010/11. Taking in to account rebates which totalled £22,200, the fee for the audit would be £234,400.

The audit plan was based on the risk-based approach to audit planning with three areas of focus for specific risks being examined which were; the transition to International Financial Reporting Standards, valuation of fixed assets and implementation of the new revenue and benefits financial system.

The District Auditor was required to give a statutory value for money conclusion which would focus on securing financial resilience and challenging how the Council secured economy, efficiency and effectiveness. Key risks identified in relation to value for money were medium term financial planning, securing improvements in the use of resources and the town centre development.

The Committee noted the proposed timetable for the 2010/11 audit which highlighted key milestones and deadlines. It was requested that further detail on the actual number of days that the audit team would spend on the 2010/11 audit be provided to the Committee.

The Committee considered the Annual Audit Fee 2011/12 letter presented by the District Auditor which covered the audit of financial statements, value for money conclusion and whole of Government accounts. The Audit Commission proposed to set a scale fee for each audited body for 2011/12 which reflected a proposed 10% decrease in the total audit fee. The scale fee for Bracknell Forest was £230,940.

**RESOLVED** that the content of the Audit Plan 2010/11, the Annual Audit Fee 2011/12 Letter and the Audit Commission publication 'A new approach to value for money audit' be noted.

36. **Certification of Claims and Returns Annual Report: Housing Benefit and Council Tax Subsidy and Housing Benefit Internal Audit Report 2010/11**

The Director of Environment, Culture & Communities introduced the report which provided the Committee with a commentary on the findings of the 2009/10 Audit of Housing and Council Tax Benefit Subsidy and to inform members of the actions undertaken and proposed in response to the findings. The Committee also received a report which appraised members of the second internal audit report of the Housing and Council Tax Benefit system following transfer between the Pericles and Northgate systems.

The main concerns were errors due to inaccurate imputing of system parameters, misclassification of expenditure and a recommendation from a previous audit which had not been implemented. The report included a detailed action plan which would be implemented and overseen by the Director. The Department would also be working with internal audit to implement spot audits with at least four spot audits being undertaken in the first two quarters.

Catherine Morganti, Audit Manager presented the Certification of Claims and Returns Annual Report 2009/10, which covered all work undertaken by the Audit Commission on grant certification. The Council claimed £120 million for specific activities from grant paying departments. As this was significant to the Council's income it was important that the process was properly managed in an adequately controlled environment.

It would be important to address the areas of concern identified in the report to allow a good transition to the new benefit system with a clear audit trail. The Committee noted that a robust plan had been developed to address concerns.

The Chief Officer: Housing presented the action plan to address concerns raised in the Housing and Council Tax Benefits Audit and provided an update on actions undertaken to date.

Arising from the subsequent discussion the Committee noted the following:

- Potential loss of subsidy was £60,000 against a total subsidy claim of £34 million.
- It was important to distinguish between service performance and certification of grant claim and that concerns raised in relation to certification of claim did not affect the inspection of the benefit services in 2009/10 which judged the services to be fair with promising prospects for improvement.
- Nationally 85% of Housing and Council Tax Benefits claims were either amended, qualified or both.
- The change to the new financial system meant that it had been an exceptionally difficult year for the services.

- An accuracy level of 98% for financial error and 99% for procedure error was expected for 2011/12.

The Committee noted that officers did not have any concerns about implementation of the recommendations for improvement and were confident that all the actions within the action plan would be delivered.

It was noted that an update on progress would be brought to the next meeting of the Committee.

**RESOLVED** that:

- i) the action plan proposed in response to the findings of the certification of the housing and council tax subsidy claim be noted.
- ii) The proposed actions in response to the internal audit report of the housing benefit service post implementation of the new Northgate system be noted.

### 37. **Internal Audit Plan 2011-12**

The Head of Audit and Risk Management presented the Internal Audit Plan for 2011/12. The Internal Audit sought to satisfy the legal requirements of the local authority internal audit services, examine and evaluate management's arrangements to secure proper use of resources and ensure external audit could continue to place reliance on internal audit's work.

Given the finite resources available for internal audit, a robust process was in place to ensure that limited resources were directed to the areas of greatest risk, with a risk based methodology in place to assess the Council's activities.

The summary of the Internal Audit Plan 2011/12 showed that a total of 591 days would be spent across all departments and reflected additional work that would take place to examine certification of grant claims.

It was noted that consultation had been undertaken with officers before the plan had been presented to the Committee.

The Committee noted that all schools in the Borough were audited once every three years and that any risk areas identified in schools would be reviewed in the following years audit plan. Advice would be provided to the new Headteacher of Jennett's Park School in autumn 2011 with review in Quarter Four of 2011/12 to allow good practice time to become embedded.

Sample testing to support the Young People's Learning Agency Grant Return was a new addition for audit. The Committee requested that further details of the grant claim be provided to members.

**RESOLVED** that the Internal Audit Plan for 2011/12 attached at Appendix 1 be agreed.

### 38. **Town Centre Land Disposals**

The Borough Solicitor presented the report which proposed a minor amendment to the Constitution to permit the Bracknell Town Centre Regeneration (BTCR) Committee to approve the disposal of land required in connection with the re-development of Bracknell Town Centre.

At present land disposals in excess of 0.5 hectares or £500,000 required the approval of the full Executive, which lead to duplication of work as reports were seen by the BTCR Committee before they went to Executive. It was noted that the BTCR Committee's membership was exclusively members of the Council's Executive with the Leader of the Opposition invited to attend meetings as an observer.

It was noted that decisions made at the BTCR Committee would be reported to Executive and would be subject to Call-In in the same manner as other Executive decisions. The Committee noted that the BTCR Committee was a public meeting, however the nature of business conducted at the meeting meant that the public and press were usually excluded from the meeting after the standard items.

Concern was expressed regarding the transparency and openness of the decision making process and further information on the process of publication of decisions made by the Bracknell Town Centre Regeneration Committee was requested.

**RESOLVED** that consideration of Town Centre Land Disposals be deferred to the next meeting of the Governance and Audit Committee.

39. **Amendments to the Council's Constitution**

The Committee received a report which sought approval to amendments to the Council's Constitution which were proposed as a result of the recent introduction of the Regulatory Enforcement and Sanctions Act 2008 and the requirements of the Council to become the primary authority under the act.

A business operating across Council boundaries could form a primary authority partnership with a single local authority in relation to regulatory compliance to resolve issues more efficiently and ensure consistency. Companies likely to be captured by the provisions included Waitrose, Panasonic, Dell, Hewlett Packard, MCM Select Foods and Anglo European Trading.

**RESOLVED** that Part 2 Table 1 General Powers of the Environment, Culture and Communities be amended at paragraph 1.1 to add general duties under the regulatory Enforcement and Sanctions Act 2008 be one of his general functions.

40. **Anti-Money Laundering**

The Borough Treasurer presented the Council's Anti Money Laundering Policy. Once approved the policy would be made available to all staff and members along with practical guidance.

Money Laundering was defined as any action taken to conceal, arrange, use or possess the proceeds of any criminal conduct. As a responsible public body the Council's policy and procedures should reflect the UK's anti-terrorist financing and anti money laundering arrangements.

The Policy outlined the Council's zero- tolerance approach to fraud and corruption and that the Council would be taking a proactive approach to prevention, detection and reporting of suspected money laundering incidents. The policy applied to all council staff, elected members, agency staff and consultants and sat alongside the Council's Employee Code of Conduct and the Anti- Fraud and Corruption Policy.

**RESOLVED** that:



- i) The Council's Anti Money Laundering policy set out in appendix A and the steps to implement the policy be agreed.
- ii) The Borough Treasurer be nominated as the Money Laundering Reporting Officer.

41. **Accounting Policies**

The Borough Treasurer Designate, introduced the report which sought the Committee's approval of the Council's Accounting Policies which had been revised due to significant changes based on International Financial Reporting Standards (IFRS).

The main reason for adopting IFRS was to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.

Main changes to the accounting policies were covered in a number of areas including; prior period adjustments (which could require the inclusion of a third balance sheet), investment property, non-current assets held for sale, lease classification, cash and cash equivalents, employee benefits, grants and contributions and componentisation.

It was noted that where an asset comprised two or more major components the lifetime of each component would be assessed separately.

It was reported that the cost associated with Private Finance Initiative contracts would appear in the Environment, Culture and Communities Department section of the statement of accounts.

**RESOLVED** that the revised Accounting Policies attached at Annexe A be approved.

**CHAIRMAN**

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**GOVERNANCE & AUDIT COMMITTEE  
25 MAY 2011  
8.59 - 9.00 PM**



**Present:**

Councillors Allen, Ms Brown, Heydon, McCracken, Thompson, Ward and Worrall

**Apologies for Absence were received from:**

Councillors Wade

**42. ELECTION OF CHAIRMAN**

**RESOLVED** that Councillor Ward be elected Chairman of the Governance and Audit Committee for the Municipal Year 2011/12.

**COUNCILLOR WARD IN THE CHAIR**

**43. APPOINTMENT OF VICE-CHAIRMAN**

**RESOLVED** that Councillor Wade be appointed Vice-Chairman of the Governance and Audit Committee for the Municipal Year 2011/12.

**CHAIRMAN**

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**TO: GOVERNANCE AND AUDIT COMMITTEE  
28TH JUNE 2011**

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**UPDATE OF CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT:  
HOUSING BENEFIT AND COUNCIL TAX SUBSIDY AND HOUSING BENEFIT  
INTERNAL AUDIT REPORT 2010/11**

**Director of Environment, Culture and Communities**

**1 PURPOSE OF DECISION**

- 1.1. The purpose of this report is to provide Committee with an update on the actions agreed in response to the Certification of Claims and Returns Annual Report and internal Audit Report on Housing and Council Tax Subsidy.**

**2 RECOMMENDATIONS**

- 2.1 That the progress in relation to the action plan in response to the findings of the certification of the Housing and Council Tax Subsidy Claim be noted.**
- 2.2 That the progress in response to the internal audit report of the Housing Benefit Service post implementation of the new Northgate system be noted.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1. The Governance and Audit Committee considered a report on the Certification of Claims and Returns Annual Report: Housing Benefit and Council Tax Subsidy and Housing Benefit Internal Audit Report 2010/11 at its meeting on the 22<sup>nd</sup> March. It requested an update on progress against the action plans that were proposed in response to the audits be presented to the Committee at its meeting on the 28<sup>th</sup> June.**

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 There is no alternative to the proposed actions.**

**5 SUPPORTING INFORMATION**

- 5.1. Progress against the recommendations made on the Certification of Claims and Returns Annual Report for 2009/10 began in the last quarter of 2010/11. Therefore, the impact of the action plan in response to recommendations may conceivably be limited in respect of the 2010/11 audit but it can be expected that the full impact will be found in the 2011/12 audit.**
- 5.2. Following the certification of the 2009/10 claim the Department of Work and Pensions has written to the Council requiring further work to be undertaken on the claim. Subject to the further work the Secretary of State will make a decision on recovery of**

overpaid subsidy. The Council will be able to make a case to the Secretary of State before a final decision is taken.

- 5.3. Officers are currently working with the auditors to resolve issues before the final certification of the 2010/11 subsidy claim later in this financial year.

#### **Certification Report and Action Plan**

- 5.4 The certification report and associated Action Plan are attached as Appendix A to this report. The following paragraphs provide a commentary on progress against the actions.
- 5.5 The first recommendation referred to the loading of parameters in the benefit system for 2010/11. At the time of writing there is one issue to be resolved with the auditors concerning the percentage uplift on statutory sick pay. In terms of checking parameters for 2011/12 this has been completed and checked by both the Benefit Service Manager and Chief Officer: Housing. Internal Audit have checked this and found that where it has been possible to check parameters in DWP circular A26 210 against those loaded in the Northgate system they are correct but they need to check with officers the parameters where descriptions in the Northgate system are not immediately obvious.
- 5.6 The action plan recommended urgent action to reduce the level of errors. By the end of the financial year 2010/11 all Assessment staff had undergone training. There were over 28,000 units processed in the year. The total number of processing units checked was 3,205 including the checking undertaken by the contractor undertaking off site processing. Within that number there was an element of rechecking of the external contractor work.
- 5.7 The third recommendation was that all non-HRA rent rebate expenditure should be reviewed and re-classified where necessary. This has been reviewed. At present there are three claims where classification is inconsistent. This will be reviewed with the Auditor and if necessary a manual adjustment will be made to the subsidy claim. The review of classification on the Northgate system has taken place and there is now a process in place between the Housing Options Service and Benefits to ensure the correct classification is used.
- 5.8 Recommendation 4 concerned action to reduce number of errors calculating earnings. Staff have received training on calculating earnings and a training plan for the year has been established issues have been identified and resolved via one to one supervision. The Northgate system now undertakes more of the earnings calculations than was the case with the Pericles system where some manual calculation was undertaken. However, there may still be issues identified in the 2010/11 audit on processing work that was undertaken before this management action was implemented.
- 5.9 Recommendation 5 concerned the need to provide an audit trail on how decision had been reached on benefit entitlement. Sample checking of work has taken place with staff to ensure the verification check list is completed. The number of verification checks not completed has reduced. For the month of March 2011 the sample checking found 3% of cases where the verification checklist was no in place.
- 5.10 Recommendation 6 concerned the risk based checking of claims to assess benefit entitlement was correct. All high payments are checked before payment released.

- 5.11 Managers have already been providing support to the auditors in relation to the audit of the claim for 2010/11. Staff availability has been planned to provide support to the audit.

### **Housing Benefit Internal Audit Report**

- 5.12 There were three priority one recommendations which generated the limited assurance opinion. These refer to data migration, debt collection and general ledger reconciliation. A follow up audit will begin on the 14<sup>th</sup> June to address the agreed actions from the previous audit.

### **Data Migration**

- 5.13 It was not been possible to provide overall assurance that the data migration from Pericles to Northgate took place in line with controls. It is accepted that the requisite checking of all transferred data where there was an error in excess of 10 pence on the claim was checked and corrected. Through testing of individual benefit cases no discrepancies were found but the auditors were not satisfied that reconciliation had taken place as demonstrated in the records of checking and amending.

### **Debt Collection**

- 5.14 The debt module on the Northgate system was not operational at the time of the audit. The delay in implementing the module was due to the need for the supplier to run a script to correct information from the data transfer and this did not take place until the 11 February.
- 5.15 The module is now fully operational.

### **General Ledger reconciliation**

- 5.16 The audit confirmed that the reconciliation to the general ledger from the Northgate system had not been completed. Reconciliation should have taken place at the end of each month and it had not been possible to undertake this activity since October when the Pericles system was shut down.
- 5.17 Reconciliation now takes place on a regular basis. However, reports from Northgate still require interrogation to establish the correct figures for reconciliation purposes. Work is on going to refine this process to deliver a more automatic reconciliation.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### **Borough Solicitor**

- 6.1 Nothing to add to the report.

### **Borough Treasurer**

The overall reconciliations between the General Ledger and Northgate for the Period November 2010 to March 2011 are complete but the details of these reconciliations are still to be resolved. Meetings have been arranged between Finance and the Housing Benefit staff to work on identifying the issues to resolve the outstanding Entries.

The reconciliations between the General Ledger and Northgate for the period April and May 2011 will be completed during June 2011 due to the increased workload required to produce the final subsidy claim from both Pericles and Northgate. To aid reconciliation between the General Ledger and Northgate in the future, monthly meetings will be arranged between Finance and Benefits to ensure this process keeps to timetable and differences are identified and corrected as quickly as possible.

#### Equalities Impact Assessment

- 6.3 An Equality Screening Form is included at the end of this report.

#### Strategic Risk Management Issues

- 6.4 Failure to address the issues contained in the audit may result in the Council losing subsidy for the benefit payments it makes. This report has commented on the progress made in implementing the action plan to address those issues.

#### Background Papers

Certification of claims and returns annual report Bracknell Forest Council Audit 2009/10  
Housing and Council tax draft audit report March 2011

#### Contact for further information

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#### Doc. Ref



## Equalities Screening Record Form

<b>Date of Screening:</b> 10 June 2011	<b>Directorate:</b> ECC	<b>Section:</b> Benefits
<b>1. Activity to be assessed</b>	Certification of benefit subsidy claim and internal audit housing and council tax benefit part 2.	
<b>2. What is the activity?</b>	<input type="checkbox"/> Policy/strategy <input type="checkbox"/> Function/procedure <input type="checkbox"/> Project <input checked="" type="checkbox"/> Review <input type="checkbox"/> Service <input type="checkbox"/> Organisational change	
<b>3. Is it a new or existing activity?</b>	<input type="checkbox"/> New <input checked="" type="checkbox"/> Existing	
<b>4. Officer responsible for the screening</b>	Shanaz Alam	
<b>5. Who are the members of the EIA team?</b>	Shanaz alam, Rosie Corah	
<b>6. What is the purpose of the activity?</b>	Action plan to respond to audit findings	
<b>7. Who is the activity designed to benefit/target?</b>	All benefit recipients	
<b>8. a Racial equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients
<b>8. b What evidence do you have to support this?</b> E.g equality monitoring data, consultation results, customer satisfaction information etc.	Benefit customers are monitored on a regular basis to assess take up of the benefit services.	
<b>9. a Gender equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients.
<b>9. b What evidence do you have to support this?</b>	Benefit customers are monitored on a regular basis to assess take up of the benefit services	
<b>10. a Disability equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients
<b>10. b What evidence do you have to support this?</b>	Benefit customers are monitored on a regular basis to assess take up of the benefit services	
<b>11. a Age equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	. The proposed actions should improve service delivery to all benefit recipients
<b>11. b What evidence do you have to support this?</b>	Benefit customers are monitored on a regular basis to assess take up of the benefit services	
<b>12. a Religion and belief equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y	The proposed actions should improve service delivery to all benefit recipients

<b>12. b What evidence do you have to support this?</b>	Benefit customers are monitored on a regular basis to assess take up of the benefit services		
<b>13. a Sexual orientation equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y		The proposed actions should improve service delivery to all benefit recipients
<b>13. b What evidence do you have to support this?</b>	Benefit customers are monitored on a regular basis to assess take up of the benefit services		
<b>14. Please give details of any other potential impacts on any other group (e.g. those on lower incomes/carers/ex-offenders) and on promoting good community relations.</b>	The nature of the benefit service is that it is targeted at low income and vulnerable households.		
<b>15. If an adverse/negative impact has been identified can it be justified on grounds of promoting equality of opportunity for one group or for any other reason?</b>	The service should generate a positive impact on those households.		
<b>16. If there is any difference in the impact of the activity when considered for each of the equality groups listed in 8 – 14 above; how significant is the difference in terms of its nature and the number of people likely to be affected?</b>	No		
<b>17. Could the impact constitute unlawful discrimination in relation to any of the Equality Duties?</b>		N	
<b>18. What further information or data is required to better understand the impact? Where and how can that information be obtained?</b>	Data collection on all equality groups who receive the benefit service will be improved during 2011/12..		
<b>19. On the basis of sections 7 – 17 above is a full impact assessment required?</b>		N	The action plan proposed actions which will improve the general operation of the benefit administration system and there are no specific actions which are directed at any specific group of benefit recipients..
<b>20. If a full impact assessment is not required; what actions will you take to reduce or remove any potential differential/adverse impact, to further promote equality of opportunity through this activity or to obtain further information or data? Please complete the action plan in full, adding more rows as needed.</b>			
<b>Action</b>	<b>Timescale</b>	<b>Person Responsible</b>	<b>Milestone/Success Criteria</b>
Improve collection rate of equality monitoring information.	03/2012	Shanaz alam	Improvement in the percentage
<b>21. Which service, business or work plan will these actions be included in?</b>	Benefit service plan		
<b>22. Have any current actions to address issues for any of the groups or examples of good practice been identified as part of the screening?</b>	None		
<b>23. Chief Officers signature.</b>	Signature:		Date:
<b>24. Which PMR will this screening be reported in?</b>			

When complete please send to [abby.thomas@bracknell-forest.gov.uk](mailto:abby.thomas@bracknell-forest.gov.uk) for publication on the Council's website.

# Certification of claims and returns - annual report

Bracknell Forest Council

Audit 2009/10

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**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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## Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.**

**This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on the Housing Benefit and Council Tax Benefit claim that we amended and qualified.**

### **Certification of claims and returns**

1 Bracknell Forest Council receives more than £120 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, my audit team certified 5 claims with a total value of £95.474 million. Of these, we carried out a limited review of 3 claims and a full review of 2 claims (paragraph 9 explains the difference). There was 1 claim which needed amending, which we were unable to fully certify and therefore issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

### **Significant findings**

3 We were able to certify most claims without amendment or qualification; however we found a significant level of errors while testing cases for the Housing Benefit and Council Tax Subsidy claim. We mentioned the results of our early testing on this claim in our Annual Governance report to the Governance and Audit Committee in September 2010. This report now updates the Governance and Audit Committee on the final results of our work.

## **Certification fees**

4 We charged a total of £74,000 for certification work in 2009/10 (compared to a fee of £60,670 for 2008/09). The most significant element (over 90%) was the fee for the Housing Benefit and Council Tax claim.

## **Actions**

5 Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

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## Background

6 The Council claims £120 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Bracknell Forest Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

9 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree form entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.



# Findings

## Control environment

10 We have been able to rely on the Council's control environment for most parts of all claims, except for Housing Benefit and Council Tax subsidy. This claim falls outside the scope of paragraph 9 because of its size and complexity. The Audit Commission's report on certification work for 2008/09 "Local Government claims and returns" noted that 85% of Housing and Council Tax Benefits claims were either amended, qualified or both.

11 In addition we tested eligibility of expenditure on the Surestart, Early Years and Childcare grant because of our qualification in 2008/09 on eligibility. Results of these tests were satisfactory.

## Specific claims - Housing Benefit and Council Tax subsidy

12 We found a high level of errors when certifying the Housing Benefit and Council Tax Subsidy claim. We therefore had to carry out significant extra testing and qualified the claim. This means there were parts of the claim which we reported to the Department for Work and Pensions (DWP) that we could not conclude were fairly stated. We have prepared a separate report on the issues arising for the Housing Benefit team for staff to prepare an action plan to address the issues.

13 We certify the claim using detailed instructions agreed between the DWP and the Audit Commission. Among other tests we have to test an initial "discovery" sample of the main types of subsidy. Should errors be found in that initial sample, we have to evaluate them and assess whether we need to carry out further testing.

14 The table below shows the error rates from our initial discovery sample.

Table 1: Level of errors found in initial discovery samples

type of subsidy	discovery sample size	level of errors
Non HRA rent rebates	15 cases	14 errors
Rent Allowances	20 cases	10 errors
Council Tax Benefit	20 cases	11 errors

15 The discovery sample errors meant we had to carry out more testing to give the DWP the information it requires to determine if further action is required. The overall results of both the initial and discovery testing led to the claim being amended. As a result subsidy payable to the Council increased by £11,222. However due to the number of errors found we also issued a qualification letter to the claim setting out our findings for the DWP. The extrapolated impact of errors set out in our qualification letter could lead to a potential reduction of subsidy of £60,000. This was based on the results of further testing. It is less than our estimate of £228,000 reported in our Annual Governance report in September 2010 which was based on the results of our initial testing.

16 The key themes from our work causing concern were:

- setting of parameters;
- misclassification of expenditure;
- earnings miscalculation or lack of supporting evidence resulting in an overpayment;
- miscellaneous errors;
- interrogation of the Council's Benefit and Revenues system - Pericles; and
- achieving the DWP's deadline for certifying the claim.

17 The Council changed its revenues and benefits system during 2010/11 financial year. It should consider the findings from our certification work in 2009/10 in the context of the new system.

#### Setting of parameters

18 Each year the Council inputs parameters onto the benefits system to reflect changes in Housing Benefit regulations and allow it to carry out benefit calculations. 8 testing failures in our discovery sample were due to parameters not being updated. We reported in 2008/09 that the rate for second child benefit for 2008/09 had not been input correctly. This was not amended in time for the 2009/10 claim, so payments that related to 2008/09 and which were made in 2009/10 were incorrect. We also found that some parameters for non HRA rent rebates had not been updated and this led to subsidy being under claimed.

19 It is essential the Council inputs parameters correctly in good time. As this is the second year of problems with parameters Internal Audit have agreed to focus some of their testing on parameters in 2010/11.

#### Recommendation

##### R1 Parameters

- Ensure these are entered correctly as soon as possible in the year.
- Ensure that this is independently checked.
- Maintain documentary evidence of this - so that further audit

## Recommendation

queries can be dealt with efficiently and quickly.

### Misclassification of expenditure

20 The claim is made up of several entries or "cells" for different types of benefit granted. Our certification instructions require us to test whether cases have been correctly coded to the cells within the claim. In many cases, particularly overpayments of benefit, the classification of expenditure impacts on the level of subsidy the Council can claim. This is particularly the case when the level of Local Authority overpayments is increased over the threshold for that Council. If the upper threshold is exceeded the Council will lose all subsidy for these overpayments.

21 We found several cases in our original discovery sample where cases had been incorrectly analysed between cells, in particular for Council Tax Benefit overpayments (6 cases) and non HRA rent rebates (8 cases). On finding these errors we had to carry out further testing drilling down to establish the extent of errors.

22 Misclassification of non HRA rent rebates has occurred in previous years' claims. As the number of cases is relatively small we have suggested the Benefits team check all cases before we start work on the 2010/11 claim.

## Recommendation

R2 Take urgent action to reduce the level of errors found in classifying expenditure. Carry out staff training and stress the importance of coding expenditure correctly to staff, particularly overpayments. Carry out test checking of cases to assess progress made and any further action including training needs.

R3 Review non HRA cases before certification work to ensure they are correctly classified. Ensure there is evidence on file to support their classification.

### Earnings miscalculation or lack of supporting evidence resulting in overpayment

23 We found a number of errors in how claimants' earnings had been calculated. This led to overpayment of benefit to claimants. The Council receives less subsidy for errors it has made.

24 One of the main errors was failing to use the correct number of payslips to support the entitlement of earnings. In many cases there was no



explanation on file for this. The Benefits team have a checklist which sets out how judgements have been reached but we found that it was not used consistently. There is scope to use this checklist and include details of judgements such as why particular payslips or a different number of payslips from the standard guidance are used. This would provide a trail for staff who assess cases at later dates. It would also help managers both in their sample check of cases and in assessing training needs. Finally it may help reduce audit input when certifying the claim.

25 As a result of these errors we had to carry out additional testing (we call this 40 plus testing) focusing on how earnings had been calculated. We found:

- Rent allowances - a further 4 cases containing errors. When the value of errors for all cases tested was extrapolated there was a potential subsidy over claim of £39,769.
- Council Tax Benefit - a further 2 cases found of overpayments of benefit. When the value of all overpaid cases tested was extrapolated there was a potential subsidy over claim of £20,551.

#### **Underpayment of benefit**

26 We found a variety of errors which led to claimants being underpaid benefit including incorrect treatment of tax refunds, incorrect calculation of earnings, one claimant being assessed incorrectly as if not in receipt of Income Support, and rent incorrectly recorded. Our 40 plus testing on earnings also identified three further cases underpaid due to incorrect calculation of earned income.

#### **Recommendation**

- R4** Take urgent action to reduce the level of errors found calculating earnings. Carry out test checking of cases to assess progress made and any further action including training needs.
- R5** Ensure there is a clear audit trail on the benefits system of how assessors have reached judgements on benefits entitlement.
- R6** Carry out risk based checking of claims to assess if benefit entitlement has been correctly calculated.

#### **Interrogation of Pericles Benefits system**

27 On finding errors we had to conduct further tests in more depth to attempt to quantify their impact for the DWP to determine any action. We found that staff were unable to provide extracts of the Pericles system for an error we found on capital cases so this was included as unquantified in the qualification letter. Selecting additional samples around the errors found on earnings was also time-consuming due to this. There is scope for relevant

staff to be trained on the new Northgate system to improve their ability to interrogate the system effectively. If this is not done the Council will continue to be at risk of losing subsidy for benefit payments it makes.

### Recommendation

R7 Ensure that benefit managers are able to interrogate the Northgate system adequately for their own management purposes and also to allow errors found as part of certification testing to be quantified.

### Achieving the DWP's deadline for certifying the claim

28 Our work took place at a busy time for the Benefits section as staff were engaged with the migration from Pericles to Northgate. We therefore timed our work with the aim of completing it for the end of September to fit around this.

29 We were unable to achieve this as, due to the significant level of errors found, we were required to carry out 40 plus testing. Our testing focused on the errors we found, including:

- earnings for Rent allowances and Council Tax benefit,
- Council Tax Benefit overpayments and
- Guaranteed pension credits (GC).

30 In order to minimise cost to the Council we asked the Benefits team to carry the extra testing. There were delays in getting some of this testing back and much of it was not of sufficient quality for us to rely on. After raising this with senior staff in the service they were able to reperform some of this additional testing but in order to meet the certification deadline we had to carry out the majority of it ourselves. This has impacted significantly on the level of fee for the 2009/10 certification.

31 We have since discussed this with staff. Their view is that if there was an issue in the quality of response due to staff availability, it was because experienced staff were involved with the move to the new system and therefore some requests were dealt with by agency staff who would not have the full knowledge of how the Council operate the systems.

32 In future years, should 40 plus testing be required, staff of appropriate skills should be allocated to the work.

### Recommendation

R8 Allocate staff of sufficient skill and experience early in the certification work to ensure that queries are dealt with adequately and promptly, and to carry out 40 plus testing to the required standard.

## Looking forward

33 The 2010/11 claim will be made of output from the new Northgate system. But due to the mid year system change some transactions history will remain in Pericles. The processing of claims through two systems will complicate the claim certification during the 2010/11 year. It will be essential there are clear audit trails making up the entries on the claim and that audit queries are responded to promptly and appropriately. We will work with the Benefits team to draw up a timetable with the aim of meeting the certification deadline. We suggest that this is done as soon as possible.

### Recommendation

R9 The Council should establish an action plan with clear timescales and responsibilities to:

- address the findings of this report;
- ensure there is a clear audit trail for the entries for the 2010/11 claim; and
- ensure there is a timetable to meet the certification deadline.

Phil Sharman  
District Auditor  
February 2011

## Appendix 1 Summary of 2009/10 certified claims

### Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	32,287,215	No	Yes	Yes
Sure Start, Early Years and Childcare	3,024,205	Partial due to qualification on eligibility in 2008/09.	No	No
National Non Domestic Rates	53,509,084	Yes	No	No
Teachers' pensions return	6,391,378	Yes	No	No

### Claims between £125,000 and £500,000

Claim	Value £	Amended
Disabled facilities	262,000	No





## Appendix 2 Action Plan

Recommendations	
<b>Recommendation 1</b>	
Parameters	
<ul style="list-style-type: none"> <li>■ Ensure these are entered correctly as soon as possible in the year</li> <li>■ Ensure that this is independently checked.</li> <li>■ Maintain documentary evidence of this - so that further audit queries can be dealt with efficiently and quickly.</li> </ul>	
<b>Responsibility</b>	Benefit Service Manager
<b>Priority</b>	High
<b>Date</b>	March
<b>Comments</b>	The year end process on the Northgate system will be complete by the 3/4th of March. The parameters are hard coded into the system. Parameters will be checked by the senior assessment officer leading on this work, subsequently checked by the Benefit Service Manager and subsequently sample checked by the Chief officer: Housing against the Circular HB/CTB A26/2010
<b>Recommendation 2</b>	
Take urgent action to reduce the level of errors found in classifying expenditure. Carry out staff training and stress the importance of coding expenditure correctly to staff, particularly overpayments. Carry out test checking of cases to assess progress made and any further action including training needs.	
<b>Responsibility</b>	Benefit Assessment Manager
<b>Priority</b>	High
<b>Date</b>	March 2011
<b>Comments</b>	All assessment staff will be advised in writing by end of February of expenditure classification requirements. Training will take place on the 3/4 March to reinforce requirements. Sample checking of 10% Assessment Officer work will take place each month and issues identified fed back via the supervision process so that support and training is offered where required; at least 5% new claims and 5% Change of Circumstances.
<b>Recommendation 3</b>	
Review non HRA cases in advance of certification work to ensure they are correctly classified. Ensure there is evidence on file to support their classification.	
<b>Responsibility</b>	Control & System Support Officer
<b>Audit Commission</b>	Certification of claims and returns - annual report



<b>Priority</b>	Medium
<b>Date</b>	March 2011
<b>Comments</b>	<p>All existing Non-HRA expenditure has been reviewed and classified in line with the appropriate code on the Northgate system.</p> <p>All non-HRA rent rebate expenditure cases will be reviewed on a monthly basis to ensure correct classification.</p> <p>Housing Options Service to review notification of temporary accommodation to Benefit Service in line with subsidy classifications via a proforma in line with expenditure classification from beginning of March to ensure consistency of approach.</p>

**Recommendation 4**

Take urgent action to reduce the level of errors found calculating earnings. Carry out test checking of cases to assess progress made and any further action including training needs.

<b>Responsibility</b>	Benefit Assessment Manager
<b>Priority</b>	High
<b>Date</b>	
<b>Comments</b>	Staff have received refresher training in October 2010. Checking of work undertaken monthly and issues fed back via supervision process.

**Recommendation 5**

Ensure there is a clear audit trail on the benefits system of how assessors have reached judgements on benefits entitlement.

<b>Responsibility</b>	Benefit Assessment Manager
<b>Priority</b>	High
<b>Date</b>	
<b>Comments</b>	Staff have been advised of need to provide full breakdown on reasons for benefit entitlement and to ensure this is adequately reflected in notebooks. Sample checking to be undertaken on earned income benefit claims on a monthly basis.

**Recommendation 6**

Carry out risk based checking of claims to assess if benefit entitlement has been correctly calculated.

<b>Responsibility</b>	Benefit Assessment Manager
<b>Priority</b>	High
<b>Date</b>	
<b>Comments</b>	Checking of all benefit assessment will be undertaken for all new assessment staff for their probation period of six months. All payments of over £ 1,000 will be checked before payment.

**Recommendation 7**

Ensure that benefit managers are able to interrogate the Northgate system adequately for their own

management purposes and also to allow errors found as part of certification testing to be quantified.

<b>Responsibility</b>	Benefit Service Manager
<b>Priority</b>	Medium
<b>Date</b>	March 2011
<b>Comments</b>	All managers have received training on the new Northgate system to enable interrogation. Additional support and training will be required for the Control & System Support Officer when she returns from maternity leave and this has already been arranged.

#### Recommendation 8

Allocate staff of sufficient skill and experience early in the certification work to ensure that queries are dealt with adequately and promptly, and to carry out 40 plus testing to the required standard.

<b>Responsibility</b>	Benefit Service Manager
<b>Priority</b>	High
<b>Date</b>	
<b>Comments</b>	The timetable for the certification work has been provided by the auditors. Staff with appropriate skills will be available to support the auditors at the appropriate times. Initial work and support has already been agreed.

#### Recommendation 9

The Council should establish an action plan with clear timescales and responsibilities to:

- address the findings of this report;
- ensure there is a clear audit trail for the entries for the 2010/11 claim; and
- ensure there is a timetable to meet the certification deadline

<b>Responsibility</b>	
<b>Priority</b>	High
<b>Date</b>	April 2011
<b>Comments</b>	The response to the recommendations is set out above. A plan of support for the Audit Commission has been agreed to support the audit based on their draft timetable

DRAFT





TO: GOVERNANCE AND AUDIT COMMITTEE  
28 JUNE 2011

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## FUTURE OF LOCAL PUBLIC AUDIT Borough Treasurer

### 1 PURPOSE OF REPORT

- 1.1 To agree the Council's response to the consultation paper 'Future of local public audit'.

### 2 RECOMMENDATION(S)

- 2.1 That the Committee agree the responses to the consultation questions set out in Annex B.

### 3 REASONS FOR RECOMMENDATION(S)

- 3.1 To advise the Government of the Council's views on the proposals contained in the consultation paper 'Future of local public audit'.

### 4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The alternative would be not to respond to the consultation paper, which would mean that the Council had no input into the future arrangements for external audit.

### 5 SUPPORTING INFORMATION

#### Background

- 5.1 On 13 August 2010, The Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and "re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions".
- 5.2 The Secretary of State's announcement on the 13 August contained the following overall intentions and policy aims:
- To disband the Audit Commission and transfer the work of the Audit Commission's in-house audit practice to the private sector.
  - To enable local authorities to appoint their own independent external auditors.
  - To provide a new framework for the audit of local health bodies who are also currently audited via the Audit Commission.
  - To ensure that all local public bodies would still be subject to robust auditing.
- 5.3 This consultation paper sets out the Government's vision for the future of local audit. The consultation is wide ranging and both provides details of the Government's proposals to change the audit of local councils and other local public bodies and also consults on a range of potential options where the government has yet to establish its intentions.
- 5.4 The Government's vision for local public audit is based on four principles:

- Localism: local public bodies should be free to appoint their own independent external auditors from a more competitive and open market.
- Transparency: local public bodies will become increasingly accountable for their spending decisions to the people who provide their resources.
- Lower audit fees.
- High standards of auditing: external audit should remain both robust, efficient and follow the established principles of public audit.

### **The Regulation of Local Public Audit**

- 5.5 The Audit Commission is currently responsible for setting audit standards through codes of practice for local government (and health) bodies. Clearly, once the Commission has been abolished, there is a requirement for local public audit to be regulated differently.
- 5.6 The consultation paper proposes a regulatory system for local public audit that is similar to that for private company audit under the Companies Act 2006. The consultation proposes that:
- The National Audit Office would develop and maintain codes of audit practice and any supporting guidance. Any codes of practice will require parliamentary approval as under the current system.
  - The Financial Reporting Council, the body responsible for the supervision of private sector external auditors, will regulate who can undertake local public audit work.
  - There would be a list (referred to as the register of local public statutory auditors elsewhere in the consultation paper) of audit firms who are recognised as qualified to undertake public audit work. Local councils would be required to appoint their external audit from those firms on the register.
- 5.7 The consultation paper states that the costs of the new regulatory regime will be passed on to individual audit firms, who may wish to recover such costs as part of their audit fee.

### **Commissioning Local Public Audit Services**

- 5.8 The consultation paper proposes that all larger local public bodies (defined as those with income/expenditure over £6.5million) will be able to appoint its own auditor. The appointed auditor must be on the register of local public statutory auditors.
- 5.9 The appointment will be made by full Council, on the advice of an audit committee with opportunities for the electorate to make an input. It is proposed that the Secretary of State should have the power to appoint an external auditor to any local public body who fails to appoint a suitable one themselves.
- 5.10 Auditors would be appointed annually, but with a requirement to open the role to competition at least every five years. The Council could re-appoint the incumbent audit firm for a maximum of ten years, after which a different audit firm must be used for further audit work.
- 5.11 The consultation paper recognises that there is more than one way of arranging such an audit committee but sets out the following possible structure:



- The audit committee chair and vice-chair would both be independent of the local public body (i.e. not elected members)
- The elected members on the audit committee should be non-executive, non-cabinet members sourced from the audited body. At least one should have recent and relevant financial experience, but with a recommendation that a third of the members have recent and relevant financial experience where possible.
- There would be a majority of members of the committee who are independent of the local public body.

5.12 Independent members can only be considered for a position if:

- they have not been a member or an officer of the public body within five years before the date of appointment
- is not a member or officer of any other relevant body
- is not a relative or close friend of a member or an officer of the body
- has applied for the appointment
- has been approved by a majority of the members of the council
- the position has been advertised in at least one local newspaper and in other similar publications and / or websites.

5.13 The consultation paper also seeks views on the role of the new audit committee and presents two options:

#### Option One

The audit committee would be required to provide advice to the council on the engagement and resignation or removal of the auditor. It would then be for the council to decide whether or not the committee has any other function or duty.

#### Option Two

There would be a much more detailed mandatory role for the audit committee, possibly including providing advice on the procurement and selection of an auditor, ensuring effective relations between internal and external audit and reviewing audit reports and quality. Under this option the audit committee would report annually to the full council on its activities during the year.

5.14 The consultation paper recognises that individual bodies might wish to co-operate on the appointment of an auditor and so the following legislation will allow both joint procurement of audit services and joint audit committees.

### **Scope of Audit and the Work of Auditors**

5.15 Currently, public sector bodies are subject to audit with a wider scope than in the private sector, including, for example, value for money and legality issues. The consultation paper presents four possible options for the scope of the audit of councils. These are:

#### Option one

The scope of the audit would become similar to private companies with the auditor giving an opinion on the financial statements and review and report on other information published with the financial statements.

#### Option two

The scope would be similar to the current system in local government, with auditors providing an opinion of the financial statements, concluding as to whether there were proper arrangements to secure value for money and reviewing and reporting on other information including the annual governance statement.

#### Option three

New arrangements to provide stronger assurances on regularity and propriety, financial resilience and value for money.

#### Option four

A new requirement for councils to prepare and publish an annual report, which would be reviewed by the auditor with them providing reasonable assurance on the annual report.

- 5.16 Auditors would continue to have the power to prepare public interest reports, with the costs of such reports being recovered from the audited body. Local people would still be able to question the auditor, but the right to make formal objections to the accounts would be removed.
- 5.17 Audit firms would be able to provide such non-audit services as long as they adhere to the ethical standards produced by the Auditing Practice Board and that permission is sought from the audit committee.
- 5.18 The consultation paper also deals with the arrangements of smaller bodies (those with income and expenditure of less than £6.5m) which do not apply to this Council. The full consultation paper is attached at Annex A.
- 5.19 The consultation paper contains 50 detailed consultation questions (41 of which are relevant to the Council) with a deadline for responses of 30 June 2011. The Council's proposed response to the consultation questions is set out in Annex B.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 The proposed responses are supported. Though the Council has been fortunate in recruiting independent Members of the Standards Committee there has not been any great number of expressions of interest to serve in that capacity when the position has been advertised. The Localism Bill, when enacted will remove the obligation to have a Standards Committee and it is unfortunate that the consultation paper does not postulate any possible merger of the role of Audit Committee and Standards Committee. The possible expansion of the role of external auditors mooted by options 3 and 4 in question 9 is not considered to be appropriate - the external auditors will have limited capability in relation to issues of general propriety. The function of ensuring propriety is essentially one for the Monitoring Officer. In relation to question 28 (the issue of limitation of liability for external auditors), one option

would be to provide that the external auditor should not be liable in damages to the audited authority or a third party.

#### Borough Treasurer

- 6.2 Nothing further to add to the report.

#### Equalities Impact Assessment

- 6.3 Not applicable

#### Strategic Risk Management Issues

- 6.4 There are no strategic risk management issues arising from the consultation paper itself. If the proposals are enacted, there is the potential risk of additional costs arising from the revised audit committee arrangements and audit fees, coupled with the risk of deterioration in audit quality.

## **7 CONSULTATION**

#### Principal Groups Consulted

- 7.1 Council officers.

#### Method of Consultation

- 7.2 Circulation of draft report.

#### Representations Received

- 7.3 Incorporated in responses to consultation questions

#### Background Papers

Future of local public audit (Communities and Local Government Consultation)

Local Government Information Unit Policy Briefing – Future of local public audit: new consultation

#### Contact for further information

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## Future of local public audit Consultation



## Future of local public audit **Consultation**

March 2011  
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## Ministerial foreword

*“...The Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers' interests, it has become the creature of the Whitehall state. We need to redress this balance.”*

Secretary of State for Communities and Local Government 13 August 2010

On 13 August, the Secretary of State for Communities and Local Government announced our plans to disband the Audit Commission and re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.

We want to drive power downwards to people. We want local public bodies to be more accountable to their citizens, to you the taxpayer, rather than upwards to Whitehall. That is what localism is all about.

The current arrangements for local audit, whereby a single organisation - the Audit Commission - is the regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. The Audit Commission has increased the professionalism and the quality of local government audit, but, it has also become too focused on reporting to central Government and supporting the previous era of a target driven Government.

We are clear that centralised inspection and supervision have no part in localism and that they can be an unnecessary burden on frontline services at a time when they must be tightening their belts and focusing on service delivery; they also drive a culture of compliance rather than initiative and problem solving. If our local services are going to be genuinely responsive, tailored to the needs of local people, then they must be accountable to those same people. This is why we want to put in place a new locally focused audit regime, which is open and transparent but retains the high quality of audit that we expect.

This consultation sets out our vision for the future of local audit. This vision is firmly based on four principles. The first of these is localism. When reforms are complete local public bodies will be free to appoint their own independent external auditors from a more competitive and open market. The second is transparency; local public bodies will become increasingly accountable for their spending decisions to the people who ultimately provide their resources. The third is to remove the overheads charged by the Audit Commission to service the central government machine. At a time when we are taking decisive action to reduce the deficit, we think it is important that we deliver a framework which sees a reduction in the overall cost of audit to local bodies. The fourth principle is high standards of auditing. Make no mistake, we are determined that audit will remain both robust and efficient and that the new framework will follow the established principles of public audit.

To meet these principles, the consultation sets out proposals which would see all local public bodies with a turnover of over £6.5m appointing their own independent auditor. This appointment would be made on the advice of an independent audit committee.

Auditors would be regulated under a system which mirrors that of the audit of companies with a role for the Financial Reporting Council and the professional audit bodies. We envisage that the National Audit Office will set the code of audit practice and we have put forward options for the scope of audit in the new framework. The consultation document also sets out how transparency will be increased in the new framework and our proposals for auditing smaller bodies with a turnover below £6.5m in a proportionate way.

Alongside these proposals, the consultation asks a number of questions, to which I would welcome your responses. Your contribution will help us to further develop the framework before publishing legislation in draft in the autumn.

We look forward to hearing your comments on how we can make the future of local audit robust and efficient while ensuring that local public bodies are truly accountable to those they serve.

A handwritten signature in black ink, appearing to read 'Grant Shapps'.

Rt. Hon Grant Shapps MP

## Glossary

### **Accountancy and Actuarial Disciplinary Board**

An independent board which has the ability to investigate and discipline accountants and actuaries who are members of the following professional bodies: the Association of Chartered Certified Accountants; the Chartered Institute of Management Accountants; the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants in England and Wales; the Institute of Chartered Accountants of Ireland and the Institute of Chartered Accountants of Scotland.

<http://www.frc.org.uk/aadb/>

### **Charities Act 1993**

The Charities Act 1993 sets out the regulatory framework in which charities operate.

[http://www.charity-commission.gov.uk/About\\_us/Regulation/default.aspx](http://www.charity-commission.gov.uk/About_us/Regulation/default.aspx)

### **CIPFA**

Chartered Institute of Public Finance and Accountancy is the professional body for people in public finance.

[www.cipfa.org.uk](http://www.cipfa.org.uk)

### **Companies Act 2006**

The Companies Act 2006 forms the primary source of UK company law.

<http://www.companieshouse.gov.uk/companiesAct/companiesAct.shtml>

### **Comptroller and Auditor General**

Created by the Exchequer and Audit Departments Act 1866 to authorise funding to Government departments and examine departmental accounts, reporting the results to Parliament.

### **Drainage Boards**

An operating authority, established in areas of England and Wales with particular drainage needs. The Board is responsible for work to secure clean water drainage and water level management.

<http://www.ada.org.uk/>

### **Financial Reporting Council**

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

They also oversee the regulatory activities of the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

<http://frc.org.uk/>

**Freedom of Information Act 2000**

Legislation which enables any member of the public to request information from a public body.

**Grant Certification**

The Audit Commission is required by the Audit Commission Act 1998 to make arrangements for the certification of grant claims when requested to do so by public bodies in receipt of grant funds.

**Health and Social Care Bill**

The Bill takes forward the areas of Equity and Excellence: *Liberating the NHS* (July 2010) and the subsequent Government response *Liberating the NHS: legislative framework and next steps* (December 2010). It also includes provision to strengthen public health services and reform the Department's arm's length bodies.

**International Financial Reporting Standards**

IFRS is an independent, not for profit private sector organisation which works on behalf of the public sector to develop standardised financial reporting standards.

<http://www.ifrs.org/>

**LASAAC**

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) develops and promotes proper accounting practice for local government in Scotland in line with legislation, International Financial Reporting Standards (overseen by the International Accounting Standards Board) and the work of the Financial Reporting Advisory Board.

<http://www.cipfa.org.uk/pt/cipfalasaac/index.cfm>

**Lord Sharman**

Liberal Democrat peer, previously the spokesman for Business, Enterprise and Regulatory Reform and former chairman of KMPG. Lord Sharman's review of audit and accountability for central government, *Holding to Account: the Review of Audit and Accountability in Central Government* was published in February 2001.

[http://archive.treasury.gov.uk/docs/2001/sharman\\_1302.html](http://archive.treasury.gov.uk/docs/2001/sharman_1302.html)

**Management Commentary**

A narrative report which provides the context or background to the financial position, performance and cash flow of an authority or public body.

**National Fraud Initiative**

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent

and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

[www.audit-commission.gov.uk/nfi](http://www.audit-commission.gov.uk/nfi)

### **Police Reform and Social Responsibility Bill**

The Bill will make the police service more accountable to local people by replacing police authorities with directly elected police and crime commissioners to be introduced from May 2012.

### **Professional Oversight Board**

The Professional Oversight Board (POB), formerly known as the Professional Oversight Board for Accountancy, is a UK regulatory body specialising in the accounting, auditing and actuarial professions.

[www.frc.org.uk/pob](http://www.frc.org.uk/pob)

### **Public Audit Forum**

The public audit agencies, the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England, the Wales Audit Office and Audit Scotland have established the Public Audit Forum to provide a focus for developmental thinking in relation to public audit.

<http://www.public-audit-forum.gov.uk>

### **Public Interest Reports**

Under Section 8 of the Audit Commission Act 1998, the appointed auditor is required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public.

### **Public Interest Disclosure Act 1998**

The Public Interest Disclosure Act 1998 is an Act that protects whistleblowers from detrimental treatment by their employer.

### **Remuneration report**

Companies produce a report containing certain information concerning director's remuneration, governed by the Directors' Remuneration Report Regulations 2002,

### **Section 151 officer**

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

**Special Health Authorities**

Special health authorities are health authorities that provide a health service to the whole of England, not just to a local community. They have been set up to provide a national service to the NHS or the public under section 9 of the NHS Act 1977. They are independent, but can be subject to ministerial direction in the same way as other NHS bodies.

**Unitary Authority**

Since 1996 the two-tier structure of local government has ceased to exist in Scotland and Wales, and in some parts of England, and has been replaced by single-tier unitary authorities, responsible for all local government services.

**Whole of Government Accounts**

Whole of Government Accounts (WGA) are full accruals based accounts covering the whole public sector and audited by the National Audit Office. WGA is a consolidation of the accounts of about 1500 bodies from central government, devolved administrations, the health service, local government and public corporations.

# Section 1

## 1. Introduction

- 1.1. On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. A new decentralised audit regime would be established and councils and local health bodies would still be subject to robust auditing.
- 1.2. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.
- 1.3. This consultation paper discusses the Government's proposals for how a new local audit framework could work and seeks your views.
- 1.4. This document has been developed by the Department for Communities and Local Government. Our proposals have been discussed with a wide range of partners and bodies which will be affected by the changes. These include the Audit Commission, the National Audit Office, the Financial Reporting Council, accountancy professional bodies, local government, other local public bodies and Government departments with an interest.

### **What is audit and why is it important?**

- 1.5. An audit is the review of financial statements, resulting in the publication of an independent opinion on whether those statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework and present a true and fair view. A summary of accounting arrangements for local bodies other than those in the health sector is at appendix A.
- 1.6. The audit of public bodies plays a key role in ensuring that those responsible for handling public money are held accountable for the use of that money. Public audit strengthens accountability, both upwards to the elected or appointed members who make decisions about the allocation of resources, and outwards to the consumers and beneficiaries, taxpayers and the wider community. Regular public audit also provides assurance on bodies' arrangements for managing their finances properly, including their arrangements for value for money and to safeguard public money.

## Current arrangements for the audit of local public bodies in England

- 1.7. There are approximately 11,000 local public bodies which, together, are responsible for some £200bn of public money. Of these, there are 353 local authorities; 268 NHS bodies (in addition to Special Health Authorities audited by the National Audit Office, and Foundation Trusts); 38 police authorities; and 215 other bodies, including fire and rescue authorities; national park authorities; conservation boards; larger internal drainage boards, joint committees; and probation trusts. The remaining 9,800 bodies, with income or expenditure ranging from £1m down to £1,000 or less, comprise: 9,400 parish and town councils; 150 internal drainage boards; and 250 other bodies (for example, charter trustees and port health authorities). A list of the categories of bodies audited by the Audit Commission is set out in Appendix B.
- 1.8. The current system for the audit of local public bodies is operated and overseen by the Audit Commission under the provisions of the Audit Commission Act 1998 (as amended). Since its inception in 1983, the Audit Commission has acted as the regulator, commissioner and provider of local audit services.
- 1.9. Acting as the overall regulator, the Audit Commission publishes two statutory Codes of audit practice - one for local government bodies and one for health bodies - which are approved by Parliament. These set the standards for audit and require auditors to comply with the auditing and ethical standards issued by the Auditing Practices Board<sup>1</sup> (which is part of the Financial Reporting Council)<sup>2</sup>. The Commission monitors the quality of audit, although the professional accountancy bodies also monitor their members.
- 1.10. Acting as the commissioner, the Audit Commission appoints auditors, either from its in-house practice or from firms contracted to the Commission, to local public bodies.
- 1.11. The Audit Commission also acts as the main provider in the current system, with 70 per cent of local public audits undertaken by its in-house practice.

## Proposals for a new audit framework for local public bodies

- 1.12. The Government believes that the current arrangements for local public audit, whereby a single organisation is the regulator, commissioner and provider of local audit services are unnecessarily centralised. There is a lack of transparency and clarity as well as potential conflicts between the roles.
- 1.13. The proposals set out in this consultation build on the statutory arrangements and professional ethical and technical standards that currently apply to companies. However, those arrangements have been adapted to ensure that the principles of public sector audit are maintained.

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<sup>1</sup> <http://www.frc.org.uk/apb/>

<sup>2</sup> <http://www.frc.org.uk/>



- 1.14. The proposed new local audit regime would continue to provide Parliament with the assurances it needs on public spending. The National Audit Office would prepare the Codes of audit practice, which prescribe the way in which auditors are to carry out their functions, and which would continue to be approved by Parliament, and associated guidance. The National Audit Office would also continue to audit Government departments providing funding to local public bodies and will continue to receive Whole of Government Accounts returns. Registration of audit firms and auditors, as well as monitoring and enforcement of audit standards, would be undertaken by the accountancy professional bodies, under the supervision of the Financial Reporting Council (as this builds on their existing role in the regulation of private sector auditors) and its operating bodies.
- 1.15. Principal local authorities would appoint their own auditors, with decisions made by full council, taking into account advice from an independently chaired audit committee. Different arrangements would apply for some other local public bodies and these are explained in section 3.
- 1.16. Localism and decentralisation can only work if central government is prepared to trust local bodies, communities and citizens. We have aimed to design a local audit system which provides the rigour needed for Parliament, but allows local public bodies to take more responsibility in the way they procure audit services. These changes go hand in hand with the Government's actions to increase transparency in local government and will help enable local people and local organisations to hold their local public bodies to account for the way that their money is spent.

## Design principles

- 1.17. In proposing a new framework for local public audit, we have followed a set of design principles:
- **localism and decentralisation** – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies
  - **transparency** – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions
  - **lower audit fees** – achieving a reduction in the overall cost of audit
  - **high standards of auditing** – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit
- 1.18. These principles are not wholly independent. For instance, there is a clear relationship between the quality and scope of the audit and the level of audit fees. We wish to find the right balance to ensure an effective, robust, quality audit for local bodies while keeping fees as low as possible.

1.19. We have also had regard to the principles of local public audit, which were codified in 1998 by the Public Audit Forum, but have deep historical roots. They are:

- **Independence of public sector auditors from the organisations being audited.** Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors; the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to information necessary for audit work.
- **The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money.** Public audit involves more than an opinion on accounts. It also covers issues such as regularity, propriety and value for money. In this way, it helps to contribute to corporate governance arrangements of public bodies.
- **The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.** To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.

**Q1: Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?**

### **What this consultation covers**

1.20. This consultation focuses on the audit of local public bodies that currently have auditors appointed by the Audit Commission. It sets out, in sections 2 and 3, our proposals for the regulation and commissioning of audit, including the various elements of the new regulatory framework and the role local public bodies will have when appointing an auditor. Section 4 covers the scope of local public audit and the work of auditors, while section 5 deals with the way that the proposed framework would apply to smaller local bodies, such as parish councils.

### **LOCAL BODIES COVERED BY THIS CONSULTATION**

1.21. This document sets out proposals for a new framework for most bodies currently audited by the Audit Commission and listed in appendix B.

1.22. However, the Police Reform and Social Responsibility Bill, which is currently before Parliament, aims to make a number of significant reforms to the policing system. This includes provisions to abolish police authorities (excluding the City of London) and replace them with directly elected Police and Crime Commissioners for each police force outside London, and the Mayor's Office for Policing and Crime for the Metropolitan Police.

- 1.23. Police and Crime Commissioners (and Mayor's Office for Policing and Crime) will be responsible for holding the Chief Constable (and Commissioner for London) of their police force to account for the full range of their responsibilities.
- 1.24. Probation services, which used to be part of Local Government's remit, have been a responsibility of central government since consolidation into the Home Office in 2000-01. The financial results of probation trusts have been consolidated into the National Offender Management Service accounts, which are audited by the Comptroller and Auditor General. We believe, therefore, that probation trusts should in future be audited by the Comptroller and Auditor General.

**Q2: Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?**

- 1.25. Pension funds are not statutorily subject to a full audit separate from that of the local authority. However, the Audit Commission has used its regulatory powers to require pension funds to be audited separately. We propose to include pension funds on the list of local public bodies subject to the new local audit framework.
- 1.26. We consider that Joint Committees should remain subject to audit, but it will be for the constituent authorities making up the Joint Committee to decide whether the Joint Committee is audited separately or as part of one of the authorities' own audits.
- 1.27. The abolition of the Audit Commission will also impact on the audit arrangements for local health bodies. Currently, the Strategic Health Authorities, Primary Care Trusts and NHS Trusts are audited under the Audit Commission framework. The Health and Social Care Bill, currently before Parliament, aims to abolish Strategic Health Authorities and Primary Care Trusts and provides for all NHS Trusts to become Foundation Trusts by 2014. The Department of Health is considering the governance and accountability arrangements for the new health landscape and these will help determine the appropriate audit arrangements. The local public bodies referred to in this consultation paper do not therefore include local health bodies. However, health bodies will be included in draft legislation on the proposals for the new local audit framework. The Department of Health will publish a paper summarising its proposals at the same time.

### **Audit Commission functions excluded from this consultation**

- 1.28. There are a number of functions that are or have been carried out by the Audit Commission that are not considered as part of this consultation. The Secretary of State has announced that the Commission's inspection and research activities would cease. In general, local government and others outside of central Government are well-placed to decide when and where research should

be undertaken. In addition, the National Audit Office, following confirmation of its existing powers, will be able, when reporting to Parliament on the activities of central Government departments, to examine the impact of policies administered by local bodies. As well as contributing to parliamentary accountability, this will provide useful insights for local communities by drawing out examples of what works successfully in different circumstances and how barriers to good value for money are being overcome.

- 1.29. It will also be possible for an auditor to undertake value for money studies connected to audit work, with the agreement of the audited body. In addition, the National Audit Office would be able to identify and report on wider issues of concern about local bodies' use of resources or common themes of interest, should such issues be identified by the audit process. They could do this, in part, by drawing upon the work of local auditors.
- 1.30. Other functions, such as grant certification, operation of the National Fraud Initiative and the auditor function of reporting on Whole of Government Accounts returns will continue in some form, but are not considered in detail here. These issues will be covered in the forthcoming draft bill and accompanying consultation.
- 1.31. The Audit Commission appoints auditors to all local public bodies in England. It appoints its own auditors from the in-house practice to 70 per cent of local public bodies, with the remaining 30 per cent of auditors employed by accountancy firms under contract to the Commission. We are considering a range of options for transferring the Commission's in-house audit practice into the private sector. We expect that an announcement on our preferred option for privatisation of the Commission's audit work will be made ahead of publication of a draft audit bill.

### **Timing and how to get involved**

- 1.32. This initial consultation will run for 12 weeks with responses invited by 30 June. Following this period, we will consider the responses we receive and will publish a summary and a Government response.
- 1.33. We then propose to publish draft legislation on the proposals for a new local audit framework which will be subject to pre-legislative scrutiny by Parliament and other interested parties. As part of this process, we will consult again on our proposals, and will publish a consultation stage impact assessment. Following pre-legislative scrutiny, we will prepare for final legislation to be introduced at the earliest opportunity.

### **Costs**

- 1.34. We are developing an impact assessment which will be published alongside the draft Bill. We would therefore be interested in your views on the costs and benefits of the proposals and options set out in this consultation. This evidence will inform the draft bill proposals and help refine the impact assessment.

## Who are we consulting?

1.35. We would welcome comments from organisations affected by the change to the audit of local public bodies, and any other bodies or individuals. This document is available on the Department for Communities and Local Government website ([www.communities.gov.uk](http://www.communities.gov.uk)) and we will be drawing it to the attention of all public bodies currently audited by the Audit Commission, to professional bodies and those involved in regulating audit in England. It is open to all to make representations on the proposed new system of local audit and all submissions will be carefully considered.

## How to respond

1.36. Your response must be received by 30 June 2011 to:

[foia@communities.gsi.gov.uk](mailto:foia@communities.gsi.gov.uk)

Or to:

Luke Scofield  
The Department for Communities and Local Government  
Zone 3/G6  
Eland House  
Bressenden Place  
London SW1E 5DU

1.37. Please use the title 'Response to future of local audit consultation'.

1.38. It would be helpful if you could make clear in your response whether you represent an organisation or group, and in what capacity you are responding.

## Publication of responses – confidentiality and data protection

1.39. Information provided in response to this consultation, including personal information, may be published, or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.40. If you want any information you provide to be treated as confidential you should be aware that under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply, and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

1.41. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer

generated by your IT system will not, of itself, be regarded as binding on the Department.

- 1.42. The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

## Section 2

### 2. Regulation of local public audit

- 2.1. Audit systems in the UK for both the public and private sector follow the International Standards on Auditing. These include the following common elements of regulation:
- **standards** – setting out what comprises the audit and the quality standards that apply
  - **registration** – determining who can audit and ensuring that auditors have the necessary skills, expertise and qualifications in order that there can be confidence in the auditors' work
  - **monitoring and enforcement** – ensuring that standards are met and that appropriate action is taken in the case of failure
- 2.2. The Government believes that having a specific regulator for the local government and the local health sectors in England - less than 10% of the audit market – risks duplication. We therefore consider that, to the extent possible, there should be a consistent regulatory regime for audit, covering the private sector and the local government and local health sectors. This local public audit regime should be focused on local accountability, in the way that the commercial sector is tailored to accountability to shareholders.

#### Standards and codes of practice

##### CURRENT SYSTEM

- 2.3. Under the current system the Audit Commission sets audit standards through Codes of audit practice for the local government and health sectors, which are approved by Parliament. These Codes build on the ethical, auditing and other standards issued by the Auditing Practices Board and are therefore broadly consistent with audit standards applied in other sectors.
- 2.4. However, the Commission's Codes contain additional standards to reflect the principles of public audit and its wider scope, particularly in terms of regularity and propriety and value for money. They specify the approach to audit for areas not already covered by professional audit standards (such as the 'value for money' conclusion). The Commission also publishes guidance and statements of responsibilities of auditors and audited bodies.

##### OTHER SECTORS

- 2.5. Standards for the audit of companies are set by the Auditing Practices Board (part of the Financial Reporting Council), which sets standards and issues guidance for the performance of external audit and in relation to the independence, objectivity and integrity of external auditors. The Auditing Practices Board is also responsible for setting ethical standards for auditors in the private and public sectors.



### **The Audit Commission's Codes of audit practice**

The Commission has a statutory duty to prepare, keep under review and publish statutory Codes of audit practice. There are currently two Codes: one for local government bodies and one for health bodies. The Codes, which are approved by Parliament and must be reviewed at least every five years, set out best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The latest versions of the Codes of practice were published in 2010.

The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime. Each Code:

- sets out the general principles to be followed by auditors in delivering their objectives
- outlines auditors' responsibilities regarding the audit of financial statements and use of resources and
- sets out the range of outputs through which the results of audit are reported

### **OUR PROPOSALS**

2.6. Under our proposals, auditors of local public bodies would continue to follow the auditing and ethical standards set by the Auditing Practices Board. We have considered which body would be best placed to produce the audit Codes of practice and supporting guidance. While this is a role that could possibly be undertaken by the Financial Reporting Council or the profession, we believe that the National Audit Office, given its role in providing Parliament with assurance on public spending, would be best placed to develop and maintain the audit Codes, which would continue to be approved by Parliament. The National Audit Office would also produce any supporting guidance.

**Q3: Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?**

### **Registration of auditors**

#### **CURRENT SYSTEM**

2.7. The Audit Commission Act 1998 stipulates that for an individual or a firm to be appointed as an auditor, the person/s conducting the audit must be a member of one of the specified professional bodies and has such qualifications as may be approved by the Secretary of State (none have been so approved). The Audit Commission regulates the quality of the work of auditors by setting minimum qualifications a public sector auditor must have in conjunction with standards set by the professional bodies for membership.



**OTHER SECTORS**

- 2.8. As part of the statutory framework for the audit of companies under the Companies Act 2006, the Professional Oversight Board (part of the Financial Reporting Council), essentially acts as the main regulator, with statutory powers delegated to it by Government for the recognition and supervision of those professional accountancy bodies responsible for supervising the work of auditors or offering an audit qualification – recognised qualifying body and recognised supervisory body e.g. Institute of Chartered Accountants in England and Wales.
- 2.9. Recognised supervisory bodies are responsible for putting rules and arrangements in place which their members must fulfil before they can be registered auditors, both as regards eligibility for appointment as a statutory auditor and the conduct of statutory audit work. A list of recognised supervisory bodies and recognised qualifying bodies for the purposes of the Companies Act is at annex C. The Institute of Chartered Accountants for Scotland maintains the list of registered auditors for the whole of the UK on behalf of the recognised supervisory bodies.
- 2.10. People with responsibility for company audit work at the firm must also hold a recognised qualification, awarded by a recognised qualifying body.
- 2.11. Looking elsewhere, in Finland, auditors who are eligible to audit municipal authorities are included in a register of eligible auditors maintained by the Finnish Board of Chartered Public Finance Auditing. In Italy, auditors who can carry out local public audit are included on a register of auditors managed by the Ministry of Justice.

**OUR PROPOSALS**

- 2.12. We propose that, as under the Companies Act 2006 (“the Companies Act”), an overall regulator would have responsibility for authorising professional accountancy bodies to act as recognised supervisory bodies for local public audit. Any such body would need to comply with the statutory requirements set out in the proposed primary legislation. It would have the roles of registration, monitoring, and discipline in relation to local public audit.
- 2.13. The Financial Reporting Council is the regulator for Companies Act audit and we propose that it takes on a similar role for the local public audit regulatory regime in England, provided that it can assure the Government that it has both the resources and the expertise to undertake the role, and wishes to do so. It is likely that setting up a separate regulator for local public audit would lead to duplication of work as entirely new systems and procedures would need to be developed.
- 2.14. Recognised supervisory bodies for local public audit could include supervisory bodies recognised under the Companies Act 2006 and any other bodies with sufficient expertise and capacity.
- 2.15. A recognised supervisory body for local public audit could have rules and practices covering:

- the eligibility of firms to be appointed as local public auditors and
- the qualifications, experience and other criteria individuals must reach before being permitted to lead a local public audit engagement and/or sign off an audit report

2.16. We propose to set out, in primary legislation, certain high level criteria that specify that the auditor must be:

- a member of a recognised supervisory body and
- eligible for appointment under the rules of that body

2.17. The legislation will include provisions enabling the supervisory body to develop appropriate detailed rules and practices on other criteria.

2.18. The eligibility criteria will be based on those for the audit of companies as we would like to ensure enough flexibility in the criteria to enable new firms to enter the local public audit market. However, there will need to be additional criteria to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body.

2.19. We propose that all eligible local public auditors would be placed on a public register. This register could be kept by the recognised supervisory bodies for local public audit, or it could be kept by another body.

**Q4: Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?**

**Q5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors?**

**Q6: How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?**

**Q7: What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?**

## Monitoring and enforcement

### CURRENT SYSTEM

2.20. The Audit Commission currently monitors the quality of auditors' performance through its annual quality review programme. The Audit Inspection Unit of the Financial Reporting Council reviews the quality of the financial statements audits carried out by the Commission's own audit practice and by private firms on behalf of the Commission.

### OTHER SECTORS

2.21. Under the Companies Act, the recognised supervisory bodies are responsible for monitoring the quality of the statutory audits undertaken by their members and for disciplining their members where this is appropriate.

2.22. Some companies that are of public significance because of the nature of their business, their size, or their number of employees can be designated as "public interest entities". In the case of these bodies, the Professional Oversight Board has an additional role in monitoring the quality of the auditing function and the Accountancy and Actuarial Disciplinary Board has a role in investigating significant public interest disciplinary cases and imposing sanctions to those found guilty of misconduct.

### OUR PROPOSALS

2.23. We propose that recognised supervisory bodies for local public audit would have responsibility for monitoring the quality of audits undertaken by their members, as they do in the private sector. This work would fall under the monitoring units of these bodies, and would include:

- reviews of individual audit engagements
- reviews of the policies, procedures and internal controls of those firms licensed to carry out the public sector audits
- reporting on the quality of audit to the registration body

2.24. The recognised supervisory bodies for local public audit would investigate complaints or disciplinary cases, as well as issues identified during their monitoring process. They would also be able to stop a firm being eligible for appointment as a statutory local public auditor and remove them from the register of eligible local public auditors.

2.25. We are considering whether the overall regulator (i.e. the body that authorises the recognised supervisory bodies) should have a role in assuring the quality, and undertaking independent investigation of the audit of local public bodies that might be considered analogous to public interest entities for the public sector. The overall regulator would have powers to investigate and discipline in these cases. The process undertaken would be similar to that above, but would provide an additional level of assurance in respect of those bodies.

However, the costs that would fall on the Financial Reporting Council from undertaking this role would be passed on to the audit firms and therefore could be reflected in fees.

**Q8: What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?**

**Q9: There is an argument that by their very nature all local public bodies could be categorised as ‘public interest entities.’ Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?**

**Q10: What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?**

## Section 3

### 3. Commissioning local public audit services

- 3.1. The Government believes that a localist approach, without an independent central body having a role in appointing an auditor, is an important element of driving accountability to local people rather than to central government. However, maintaining the independence of the auditor in the new system is central to the principles of public audit. Our proposals therefore need to include measures to safeguard the independence of the auditor.

#### **Duty to appoint an auditor**

##### **CURRENT SYSTEM**

- 3.2. Under the current system, all auditors of local public bodies included in Schedule 2 of the Audit Commission Act are appointed by the Audit Commission. Before making appointments of auditors to local government bodies, the Commission has a statutory duty to consult the body. The Commission has voluntarily extended this practice to health bodies.

##### **OTHER SECTORS**

- 3.3. Commissioning takes different forms in different sectors. Under the Companies Act the annual general meeting must agree a resolution on the appointment of the auditor, although this will be based on a recommendation from directors and input from an audit committee.
- 3.4. Looking elsewhere, it is clear that there are different systems for commissioning audit services. However, in the USA local authorities procure their own auditors: an audit committee often appoints 'internal auditors' for their local authority, who then procure the external auditor.

##### **OUR PROPOSALS**

- 3.5. We propose that all larger local public bodies (those with income/expenditure over £6.5m) will be under a duty to appoint an auditor. The auditor would need to be on the register of local public statutory auditors, which should help to ensure that the quality of auditors is maintained.
- 3.6. It is equally important as it is in other sectors that those to whom audit is directed have influence but that the independence of the auditor remains paramount. Therefore, for larger public bodies, we propose an approach whereby appointment is made by full council or equivalent, on the advice of an audit committee with opportunities for the electorate to make an input.
- 3.7. We consider that local public bodies will wish to co-operate to ensure that there is wide competition for external audit contracts, and that local public bodies will want to work together to procure an external auditor. We propose to ensure that legislation provides for both joint procurement and joint audit committees.

**Q11: Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?**

- 3.8. Lord Sharman, in his report, *Holding to Account: the Review of Audit and Accountability in Central Government*, was clear that, to maintain confidence, auditors must be independent to avoid improper influence and allow work to be carried out freely. Independence includes the way auditors are appointed. We consider that, as part of a new local audit regime, each larger local public body should have an audit committee with a majority of members independent of the local public body and, with some elected members to strike a balance between objectivity and in-depth understanding of the issues.
- 3.9. A possible structure is set out below. However, there could be alternative arrangements, for example:
- a) only the chair and perhaps a minority of members are independent of the local public body
  - b) a chair and a majority of members independent of the local public body, as described below
  - c) as for (b), but with independent selection of the members independent of the local authorities
- 3.10. We are keen to ensure that local public bodies have flexibility in the way that they constitute and run audit committees. But we need to balance this with ensuring that the minimum requirements for an audit committee set out in legislation provide for an independent audit appointment. We set out below a possible structure and role for the audit committee, some of which may be prescribed in legislation and some of which we would put forward as best practice.

## **Structure of audit committees**

We envisage that in the new system, an audit committee could be structured in the following way:

- The chair should be independent of the local public body. The vice-chair would also be independent, to allow for the possible absence of the chair.
- The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible).
- There would be a majority of members of the committee who were independent of the local public body.

### ***Independent members of the committee***

When choosing an independent member of the committee, a person can only be considered for the position if:

- he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment
- is not a member nor an officer of that or any other relevant authority
- is not a relative nor a close friend of a member or an officer of the body/authority
- has applied for the appointment
- has been approved by a majority of the members of the council
- the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate

**Q12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?**

**Q13: How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?**

**Q14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?**

## Role of the Audit Committee

### CURRENT SYSTEM

3.11. As auditors are currently appointed by the Audit Commission there is no role for an audit committee in the appointment of auditors, although the Audit Commission always consults local public bodies before it confirms an audit appointment. However, some local public bodies do have Audit Committees (some of which are independent) with roles in relation to both internal and external audit.

3.12. Health bodies currently have their own form of audit committees following the Financial Reporting Council best practice guidance, comprising of independently appointed non-executive directors governed by their own rules and requirements.

### OTHER SECTORS

3.13. The Financial Reporting Council currently produces guidance for the establishment of audit committees for companies, stating that they should be made up of at least three, or in the case of smaller companies two, independent non-executive directors.

3.14. The main role and responsibilities of a company's audit committee are set out in written terms of reference and can include a number of roles, including:

- providing advice to the board in relation to the appointment of external auditors
- approving the remuneration and terms of engagement of the external auditor
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process
- developing and implementing policy on the engagement of the external auditor to supply non-audit services

3.15. Looking elsewhere, audit committees are statutory bodies in each municipality in Finland. Their remit includes preparing the choice and appointment of external auditors. In Canada, the local authority's audit committee also commissions audit services.

### OUR PROPOSALS

3.16. It is likely that we would want to specify in legislation some responsibilities that the audit committee should have in relation to the engagement of an auditor and monitoring the independence and quality of the external audit. However, we would not wish to limit the scope of an audit committee so that a local body had no flexibility in designing its role.

3.17. The expanded role of the audit committee would include the provision of advice and guidance to the full council or equivalent (the audit committee may wish to have regard to advice from the section 151 officer) on appropriate criteria for engaging an auditor and advice as to how these criteria could be weighted. The audit committee would be given copies of the bids to evaluate in order that they



may advise the full council or equivalent on the selection process and may, if they wish, indicate which auditor, in their view, presents the best choice.

- 3.18. The full council or equivalent would need to have regard to the advice of the audit committee but would not need to follow its advice. The full council or equivalent would be responsible for selecting an auditor and engaging that auditor on a contractual basis.
- 3.19. Advice provided by the audit committee to the full council or equivalent would be published, although consideration will need to be given to the treatment of commercially confidential material.
- 3.20. If the full council or equivalent did not follow the advice of the audit committee, then it would need to publish on its website a statement from the audit committee explaining its advice and a statement from the full council or equivalent setting out the reasons why the council or equivalent has taken a different position.

### **Option 1**

- 3.21. We could specify only one mandatory duty for the local public body's audit committee, i.e. to provide advice to the local public body on the engagement of the auditor and the resignation or removal of an auditor.
- 3.22. It would then be left up to the local public body and the audit committee to decide whether the audit committee should have a wider role in other issues, e.g. setting a policy on the provision of non-audit services by the statutory auditor or reviewing the relationship between the auditor and the audited body.
- 3.23. This option would ensure that the audit committee provided advice to the local public body at crucial moments, but would allow the local public body and the audit committee flexibility to decide on any other functions it may carry out. However, if only the minimum was followed, this may not provide an adequate check on ongoing independence through the auditor's term.

### **Option 2**

- 3.24. We could specify a much more detailed mandatory role for the audit committee which could include, but may not be restricted to the following:
- providing advice to the full council on the procurement and selection of their external auditor
  - setting a policy on the provision of non-audit work by the statutory auditor
  - overseeing issues around the possible resignation or removal of the auditor
  - seeking assurances that action is being taken on issues identified at audit
  - considering auditors' reports
  - ensuring that there is an effective relationship between internal and external audit
  - reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit
  - providing advice to the full council on the quality of service they are receiving

- reporting annually to the full council on its activities for the previous year

3.25. This option would provide more assurance about the independence of the relationship between the audited body and its auditor, it would also ensure that the audit committee had a wider role in reviewing the financial arrangements of the local public body.

**Q15: Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?**

**Q16: Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?**

**Q17: Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?**

**Q18: Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?**

## **Involvement of the public in the appointment of an auditor**

### **CURRENT SYSTEM**

3.26. There is no involvement of the public in the appointment of auditors by the Audit Commission to audited bodies.

### **OUR PROPOSALS**

3.27. We envisage that the appointment of an auditor by the local public body should be as transparent as possible so that local people are able to hold their local public bodies to account for the appointment.

### ***Pre-appointment***

3.28. The audited body could ask for expressions of interest from audit firms for the audit contract one month prior to the publication of the invitation to tender. The list of those firms that have expressed an interest would then be published on the audited body's website. The public would then be able to make representations to the audited body's audit committee about any of these firms. The audit committee would consider these representations when providing advice to the full council or equivalent.

**Post - appointment**

3.29. The public would be able to make representations at any time to the local public body's audit committee. If a representation identified a significant, or potentially significant, issue relating to the auditor, then the audit committee would be able to provide advice to the audited body on that issue and investigate as appropriate. If the issue identified was material to the ongoing work of the auditor (such as an undisclosed material conflict of interest) then the audited body would need to take such steps as appeared necessary, in accordance with the terms of the contract with the auditor, to address that issue. We may also wish to specify in legislation some statutory requirements relating to conflicts of interest.

**Q19: Is this a proportionate approach to public involvement in the selection and work of auditors?**

**Applicability to other sectors**

3.30. The policy of audit committees acting as a safeguard to independent appointment is applicable to all larger local public bodies covered by this framework. The approach may differ depending on the constitution and governance arrangements of those bodies.

3.31. For Police and Crime Commissioners (and Mayor's Office for Policing and Crime) and Chief Constables (and Commissioner for London) we are considering whether the Police and Crime Panel should have a role similar to that of the audit committee. Arrangements for the audit of these policing bodies will be finalised once the Police Reform and Social Responsibility Bill has completed its passage.

**Q20: How can this process be adapted for bodies without elected members?**

**Failure to appoint an auditor****CURRENT SYSTEM**

3.32. As the Audit Commission is responsible for appointing the auditors for all audited bodies specified in the Audit Commission Act 1998, the situation where an audited body fails to appoint an auditor does not arise.

**OTHER SECTORS**

3.33. The Companies Act 2006 provides a default power for the Secretary of State, so that if a private company fails to appoint an auditor or auditors, the Secretary of State may appoint one or more persons to fill the vacancy. If the company fails to make the necessary appointment, the company is required to give notice to the Secretary of State that his power has become exercisable and if the

company fails to give this notice then the company has committed an offence and can be liable for a fine.

### **OUR PROPOSALS**

3.34. The audited body would be under a duty to appoint an auditor. However, there could be some instances under the new system where a body does not fulfil this duty.

#### **Option 1**

3.35. In these circumstances we propose that the Secretary of State would be able to direct the local public body to appoint an auditor.

#### **Option 2**

3.36. Alternatively, where a local public body does not fulfil its duty to appoint an auditor the Secretary of State could be provided with the power to make the auditor appointment. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.

**Q21: Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?**

3.37. It would clearly be against our design principles for the new local audit framework for the Secretary of State to make the auditor appointment for local public bodies. However, some form of assurance will be required that local public bodies have fulfilled their duty to appoint an auditor.

**Q22: Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?**

3.38. Given that we envisage that the Recognised Supervisory Bodies will hold the register of eligible local public auditors there is an argument that they should be notified if a local public body has appointed or failed to appoint an auditor. However, this could involve a significant cost.

3.39. As the Secretary of State would be able to direct the local public body to appoint an auditor, or could be provided with the power to make the auditor appointment where a local public body does not fulfil its duty to appoint an auditor, an alternative option would be for the local public body to notify the appropriate government department, or a body that the government department specifies, of the auditor appointment. The cost of doing this could be met by the appropriate department, and would provide an effective route for the Secretary of State to exercise his powers to direct the local public body to appoint an auditor, or to make the auditor appointment where the body did not fulfil its duty to appoint an auditor.

**Q23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?**

## **Rotation of audit firms and audit staff**

### **CURRENT SYSTEM**

3.40. The Auditing Practices Board's ethical standards, which apply to the audit of both private and public entities, require an audit firm to establish policies and procedures to monitor the length of time that audit engagement partners and other key staff serve as members of the engagement team for each audit. These procedures are in place to help ensure the independence and objectivity of auditors.

3.41. The Audit Commission appoints audit firms or its own staff for an initial period of five years. The audit engagement partner can then be appointed for an additional period of up to two years in accordance with the Auditing Practices Board's Ethical Standards (i.e. a maximum of seven years, provided there are no threats to the auditor's independence). The audit manager (the second in command to the audit engagement partner) can be appointed for a maximum of ten years. After this period individuals should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

### **OTHER SYSTEMS**

3.42. In the case of listed companies, the audit firm must have policies and procedures so that:

- no-one shall act as audit engagement partner for more than seven years and
- anyone who has acted as the audit engagement partner for a particular entity for a period of seven years, shall not subsequently participate in the audit engagement with that entity until a further period of five years has elapsed

3.43. The audit committee of a company assesses the independence and objectivity of the external auditor annually, taking into consideration regulatory and professional requirements. This assessment involves a consideration of all relationships between the company and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor. The audit committee seeks from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.

### **OUR PROPOSALS**

3.44. We envisage that the new audit framework would be in line with the current ethical standards regarding the rotation of staff within the audit firm.

3.45. The audited body's audit committee would have a role in monitoring the independence and objectivity of the body's external auditor.

- 3.46. In relation to the rotation of the firm, an audit firm would be reappointed annually by the full council on the advice of the audit committee (who may want to provide advice on the quality of service received in the previous year) but the audited body could be required to undertake a competitive appointment process within five years. The audited body would be able to re-appoint the same firm for a second consecutive five year period, following competition.
- 3.47. To preserve independence, we propose that the audited body would need to procure a different audit firm at the end of the second five year period. This will help to ensure that in carrying out their responsibilities auditors are not influenced by their desire to secure re-appointment.

**Q24: Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?**

**Q25: Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?**

**Q26: Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?**

## **Resignation or removal of an auditor**

### **CURRENT SYSTEM**

- 3.48. In the current situation there is not a direct contractual relationship between the auditor and the audited body - the relationship is with the Audit Commission. It is therefore not possible for the audited body to remove the auditor and the auditor does not need to resign because of issues arising with the audit.
- 3.49. In the event that there was a breakdown in the relationship between the auditor and audited body the Audit Commission can consider rotating suppliers.
- 3.50. The audit engagement partner or audit team may change during the appointment and the Audit Commission can and does rotate between firms and its in-house practice undertaking the audit, including if the audited body requests it.

## OTHER SECTORS

### *Resignation*

- 3.51. In the companies sector, if an auditor ceases for any reason to hold office, he must deposit a statement at the company's registered office which will usually set out the circumstances connected with his ceasing to hold office. If the circumstances are set out in the statement (in the case of a quoted company), the company must send a copy of the statement to all members of the company unless it makes a successful application to the court to stop this.
- 3.52. If (in the case of an unquoted company) the circumstances are not set out in the statement, the auditor must deposit a statement with the company to that effect but the company does not have to circulate this statement to its members.
- 3.53. When an external auditor resigns, the audit committee of the company will investigate the issues giving rise to such resignation and consider whether any action is required.

### *Removal*

- 3.54. The members of a company may remove an auditor from office at any time during their term of office. They, or the directors, must give 28 days notice of their intention to put to a general meeting a resolution to remove the auditor. The company must send a copy of the notice to the auditor, who then sends it to the company's members. The auditor may speak at the meeting where the resolution is to be considered. Although a company may remove an auditor from office at any time, the auditor may be entitled to compensation or damages for termination of appointment.

## OUR PROPOSALS

- 3.55. We envisage that a body might wish to remove its auditor, or an auditor might wish to resign, only in exceptional circumstances, for example, an auditor being in breach of the ethical standards, or a complete breakdown in the relationship between the auditor and audited body.
- 3.56. However, we recognise the importance of having stringent safeguards in place for the resignation and removal of an auditor to protect the independence of the auditor and the quality of the audit. These safeguards would broadly mirror those in the Companies Act, but would be adapted to reflect the principles of public audit. The process would be designed to ensure that auditors are not removed, or do not resign, without serious consideration.

### *Resignation*

- 3.57. We envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the auditor still wished to resign he should give 28 days written notice of his intention to the audit committee and the audited body, setting out his intention to resign. The audited body should then make a written response, which it should send with the auditor's written notice, to its members and the audit committee. The auditor will then be required to deposit a statement at the audited body's main office and with the audit committee, which should be published on its website. The statement



would set out the circumstances connected with the resignation of the office that are relevant to the business of the audited body.

3.58. The audited body would need to notify the body responsible for maintaining the register of appointed auditors, and the auditor will need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the resignation and considering whether any action is required.

### **Removal**

3.59. Again, we envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the audited body still wished to remove its auditor, it should give 28 days written notice of its intention to the audit committee and to the auditor. The audited body should put to a public meeting, or full council meeting, a resolution to remove the auditor. The audited body would also send a copy of this notice to the auditor.

3.60. The auditor would then have the right to make a written response, which the body would need to send to its members and the audit committee, and to speak at the meeting where the resolution is to be considered. A representative from the audit committee should also be able to speak at the meeting. The auditor would be required to deposit a statement at the audited body's main office and with the audit committee, which would need to be published on its website. This statement would set out the circumstances connected with the cessation of their office that are relevant to the business of the audited body.

3.61. The audited body would need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the removal and considering whether any action is required.

3.62. A right of access to the previous auditor's audit working papers (from the previous year and/or current) should be provided to incoming auditors in cases of resignation or removal or any other instances where the audit firm changes. This right should extend to all aspects of the previous auditor's responsibilities and not just to work on the audit of the financial statements.

**Q27: Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?**



## Auditor liability

3.63. In the private sector, auditors are concerned about the consequences of the risks of litigation, as a result of actual or perceived failing by auditors. These concerns have been fuelled by legal judgments about the extent of auditors' duty of care to third parties, such as potential investors and the banks. They have increasingly caused auditors to caveat their audit opinions by explicitly limiting their duty of care and by seeking to limit their liability. Case law has established that the duty of care of auditors appointed by the Commission is to the audited body itself and not to third parties. Public authorities can sue their auditor for breach of duty.

### CURRENT SYSTEM

3.64. There are particular issues in the public sector where auditors may exercise special powers. The Audit Commission currently indemnifies auditors for the costs they incur where they are engaged in litigation arising from the exercise of such powers. This ensures that auditors are able to exercise their functions with the certainty that their costs will be met.

### OTHER SECTORS

3.65. In the companies sector, the Companies Act provides that general provisions that protect auditors from liability for negligence, default, breach of duty or breach of trust in relation to the company, or provide an indemnity against liability are void, but:

- does not prevent a company from indemnifying an auditor against any costs incurred by him in defending proceedings in which judgment is given in his favour or in the granting of relief by the court in the case of honest and reasonable conduct
- allows for a "liability limitation agreement" to be put in place if it is authorised by the members of the company, provided it complies with the content permitted in the Companies Act

### OUR PROPOSALS

3.66. In the absence of a central body providing indemnity to audit firms, it could be possible for audited bodies and auditors to deal with auditor liability as part of their contractual negotiations. A legislative framework, similar to that in the companies sector, could set out the process for setting and agreeing liability limitation agreements. Without a liability agreement, audit firms may increase their fees to match the increased risk they face in undertaking their work.

**Q28: Do you think the new framework should put in place similar provision as that in place in the companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?**

## Section 4

### 4. Scope of audit and the work of auditors

4.1. In this chapter, we look at the scope of the audit and the options for the elements of local public bodies' finance and the arrangements that auditors should assess. The duty for the auditor to issue a report in the public interest is also considered. This section asks whether auditors should be able to carry out additional, non-audit, work for the audited body, and considers the various safeguards that could be introduced to ensure that auditor independence is not compromised.

#### **Scope of local public audit**

4.2. The starting point is the principles of public audit, in particular the wide scope of the audit covering the audit of financial statements, regularity and propriety and value for money.

#### **CURRENT SYSTEM**

4.3. Public sector accounting in the UK has recently moved to adopt International Financial Reporting Standards adapted as necessary for the public sector (for local government audits from 2010-11).

4.4. Currently, the auditor of larger local public bodies is required to:

- give an opinion on whether the accounting statements give a true and fair view of the audited body's financial position and of its income and expenditure
- provide a conclusion as to whether the body has proper arrangements for securing value for money, having regard to specified criteria (such as financial resilience and to regularity and propriety) and in accordance with guidance issued by the Commission
- review and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement and the remuneration report and
- (for local government) review and report on the Whole of Government Accounts return

4.5. Smaller local public bodies are currently subject to a limited assurance regime. We believe that it is important for smaller bodies to continue to be dealt with proportionately under the new framework and discuss this in more detail at Section 5.

#### **OTHER SECTORS**

##### ***Companies***

4.6. The scope of audit for companies is based around the financial statements produced by the company and a report that the directors are required to produce which must describe the company's principal activities, a review of the business and an indication of future developments.

4.7. Statutory auditors of companies include in their report, statements as to whether, in their opinion:

- the accounts have been prepared in accordance with the Companies Act 2006
- the accounts give a “true and fair “ view of the company’s financial statements
- the director’s report is consistent with the accounts
- the remuneration report is properly prepared

### **Charities**

4.8. Any charity which has income above the audit threshold in the financial year must have an audit of its financial statements undertaken by a registered auditor. This is in line with the treatment of companies.

4.9. The Charities Act 1993 also requires all registered charities to prepare a Trustees’ Annual Report. The length of the report and the amount of detail included in it can be in proportion to the charity’s size so for small charities it can be a very simple report.

### **Central government**

4.10. The Comptroller and Auditor General, with the support of the National Audit Office, is responsible for auditing the financial statements of all central Government departments, executive agencies and a wide range of other public sector bodies.

4.11. When certifying the accounts of central government departments, the Comptroller and Auditor General states whether, in his opinion:

- the financial statements give a “true and fair” view of the financial position of the body
- the financial statements have been properly prepared in accordance with underpinning legislation
- in all material respects the transactions recorded in the financial statements are in accordance with Parliamentary or other authority (regularity)
- information given in the Management Commentary/Annual Report is consistent with the financial statements
- the audited part of the Remuneration Report has been properly prepared in accordance with relevant guidance

4.12. The Comptroller and Auditor General also has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

### **OUR PROPOSALS**

4.13. When looking at the future scope of audit for local public bodies we have considered whether we should move to a more transparent model, such as that followed by companies and charities which must produce a director or trustee’s report. Central Government departments are also required to prepare an Annual Report along similar lines. However, we recognise that public money

must be accounted for in a certain way, including assuring regularity and propriety and with the necessary focus on value for money. With this in mind, for larger public bodies we have identified the following three options to deliver effective audit that conforms to the principles of public audit.

### **Option 1**

4.14. The scope of audit could be reduced to be more in line with that for companies, with no assessment of value for money. The auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure and
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.15. This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money.

### **Option 2**

4.16. As under the current system, the auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure; and
- provide a **conclusion** as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety)
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.17. This option would maintain the current scope of audit. However, this option would not provide any additional information to local citizens on how local public bodies are spending their money or on whether bodies are securing value for money.

### **Option 3**

4.18. New arrangements could provide stronger assurances on the way local public bodies spend money. Under this option, the auditor would still give an **opinion** on the financial statements, but would provide **conclusions** on:

- regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime

- financial resilience – a conclusion about the future financial sustainability of the audited body and
- value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body

4.19. We will need to consider carefully how a stronger value for money element to the audit would fit with other sectors, such as policing, who already have alternative systems for examining and reporting value for money publicly.

4.20. We believe that, compared to option 1 and 2, option 3 could lead to greater transparency for local citizens, and would help deliver the wide scope of public audit. It would also require a separate conclusion on regularity and propriety and financial resilience, rather than having regard to these aspects within a conclusion on value for money (as in option 2). However, the volume of work undertaken by the auditor would be significantly greater than for option 1. It is also possible that auditors would have difficulties in reaching a robust conclusion on value for money, regularity and propriety. We expect that reaching a conclusion on the achievement for value for money would involve more work for auditors, particularly in the case of complex organisations such as principal local authorities.

#### ***Option 4***

4.21. Local public spending should be transparent so that citizens can hold bodies to account. Companies are required, by law, to produce and publish an annual report, including the principal activities of the company during the year, and a business review which includes risks and uncertainties. Most public bodies also produce such a report, although local authorities are not currently required to do so.

4.22. Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience.

4.23. The auditor would be required to:

- give an opinion on the financial statements
- review the audited body's annual report and
- provide reasonable assurance on the annual report

4.24. The annual report could be written in an accessible way and would be published. This option could therefore substantially increase the transparency of the local public bodies, compared to options 1 and 2. Citizens' increased knowledge of the local public body's financial performance could help drive greater local accountability. We would need to consider whether producing an annual report in an appropriate format would be a new burden for local authorities that do not currently produce an annual report in an appropriate format.

4.25. Another possible benefit of this option, is that it brings the format of audit for local public bodies (financial statements and reviewing a report) more in-line with that of other sectors.

**Q29: Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provide sufficient assurance and transparency to the electorate? Are there other options?**

**Q30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?**

**Q31: Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?**

**Q32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?**

**Q33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?**

## Public interest reporting

### CURRENT SYSTEM

4.26. Under Section 8 of the Audit Commission Act 1998, the auditor is currently required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public. The auditor can also make written recommendations to the audited body as part of this report. The audited body has a corresponding duty to consider and respond to these reports and any recommendations that might be made. The costs of the report fall on the audited body.

4.27. Appointed auditors have issued 131 public interest reports since 2002, of which 13 have related to principal local authorities, 85 to parish councils, 30 to health bodies and one each to a passenger transport authority (now an integrated transport authority), a passenger transport executive, and an internal drainage board.

4.28. In addition to the auditor's duties to report in the public interest, they also have the power to make a recommendation requiring a public response and can issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

**OTHER SECTORS**

- 4.29. Although public interest reporting is a consequence of the principles of public audit, there are some similarities with processes in place in other sectors.
- 4.30. The auditor of a regulated entity generally has special reporting responsibilities in addition to the responsibility to report on financial statements. One of these special reporting responsibilities is a statutory duty to report certain information, relevant to the regulators' functions that come to the auditor's attention in the course of the audit work. This form of report is derivative in nature and is initiated by the auditor on discovery of a reportable matter.

**OUR PROPOSALS**

- 4.31. We consider it is important that the duty on an auditor to consider whether to make a report in the public interest should be retained. Public interest reports are a key part of the current audit system and provide a vehicle through which the public are made aware of issues of significant interest to them. This is consistent with the design principles of localism and transparency.
- 4.32. We envisage that the current publication requirements for public interest reports would be retained, as would the audited body's responsibilities to consider the report at a meeting within one month of receipt and to publish a summary of the meeting's decision.
- 4.33. The costs of public interest reports will fall on the audited body. It has been suggested that the new direct contractual relationship between the audited bodies and their auditors could have, if unchecked, an impact on the ability or willingness of the auditor to issue a public interest report. However, we believe that if suitable safeguards are put in place for the resignation or removal of auditors, this will mitigate the risk.
- 4.34. We also propose to retain the power of an auditor to make a recommendation requiring a public response and to issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

**Q34: Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?**

**Provision of non-audit services****CURRENT SYSTEM**

- 4.35. The auditor may be best placed to carry out certain types of additional work for the audited body. Therefore, the Audit Commission allows additional work to be undertaken without prior approval from the Commission, if the auditor is satisfied that:



- performance of such work will not compromise, nor be reasonably perceived by the public to compromise, his independence and
- the value of the work in total, in any audit year, does not exceed a de minimis amount (set by the Audit Commission as the higher of £30,000 or 20 per cent of the total audit fee, excluding fees for the certification of grant claims and returns)

4.36. Auditors are required to establish procedures to identify and address any potential breaches of these requirements.

4.37. All such work must be:

- agreed in advance with the audited body, on the understanding that such work is discretionary and is not required to meet the auditors' statutory responsibilities and
- billed separately from the audit work

The Commission requires applications for approval to carry out work exceeding the de minimis threshold at least ten days before the start of the work.

#### **OTHER SECTORS**

4.38. In other sectors, such as the companies sector, statutory auditors are allowed to provide other non-audit services to the company.

4.39. However, the audit committee of the company has a role in considering all relationships between the company and the audit firm, including the provision of non-audit services and whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.

4.40. The audit committee should also develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor, and keep the policy under review. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity.

#### **OUR PROPOSALS**

4.41. We propose that auditors will be able to provide non-audit services to the audited body, but safeguards will be built into the system to prevent any actual or perceived threats to the auditor's independence. We recognise that by adding a number of safeguards into the system we could reduce the number of auditors eligible for appointment to an audited body, which would in turn affect competition.

4.42. We propose that auditors should continue to adhere to the ethical standards produced by the Auditing Practices Board and permission should be sought from the audit committee who would provide advice to the body on whether non-audit work should be undertaken as well as continuing to monitor the relationship between the auditor and the audited body.



**Q35: Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?**

**Q36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?**

## Public interest disclosure

### CURRENT SYSTEM

4.43. Under the current framework, the Audit Commission and appointed auditors are prescribed persons under the Public Interest Disclosure Act 1998 for disclosures relating to “the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies”. The Audit Commission and appointed auditors consider information they receive as a result of a disclosure and determine what action, if any, to take in the context of their existing statutory and professional powers and duties.

4.44. We recognise the importance of the roles undertaken by prescribed persons including the Audit Commission and appointed auditors. It provides reassurance to workers that it is safe and acceptable for them to raise concerns internally and sets out the circumstances where the disclosure of the malpractice outside of the organisation is in the public interest and should be protected.

### The Audit Commission’s role in public interest disclosure

The Audit Commission is a ‘prescribed person’ as set out in the Schedule to the Public Interest Disclosure Act. It exercises this role by:

- receiving the facts of a disclosure
- supporting the discloser by referring them to Public Concern at Work for further advice and guidance if subjected to victimisation or harassment;
- acknowledging receipt of the disclosure and stating in general terms what the procedures are
- forwarding information to the auditor and inform the discloser

#### *The current role of the appointed auditor*

The auditor’s role includes:

- evaluating the information provided by the Commission
- acknowledging receipt to the discloser, and providing an indication of the likely response, with an explanation for the decision
- undertaking appropriate audit work in response to the disclosure
- reporting the outcome of any work to the discloser and the Commission

**OTHER SECTORS**

4.45. The Financial Reporting Council's guidance for the audit committees of companies sets out a role for the audit committee in reviewing arrangements under which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

**OUR PROPOSALS**

4.46. We believe it is important that a similar system operates in the new framework. We propose that the Audit Commission's role (receiving, acknowledging receipt of and forwarding the facts of disclosure) should be broadly transferred to the audit committee of the local public body. The audit committee may choose to designate one of its independent members as a point of contact. As this role is an administrative role, which involves no need to consider the issue they are transferring, we do not see this as an additional burden on audit committees.

4.47. We envisage that the statutory auditor of the local public body would continue to be a prescribed person and would continue with his/her role with no change from the current system.

**Q37: Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?**

**Transparency****CURRENT SYSTEM**

4.48. Members of the public currently have rights to question the auditor of an audited body about its accounts and raise objections, if the audited body is not a health body, in respect of unlawful items of account or matters on which the auditor can make a report in the public interest. The auditor may also apply for a declaration to the Court. Objectors have the right to appeal to the Courts about an auditor's decision.

4.49. Auditors have only limited discretion to refuse to investigate objections, but the costs of investigating objections, which are recovered from the local public body and, therefore, funded by council taxpayers, can be disproportionate to the sums involved in the complaint, or to the normal audit costs of the local public body.

4.50. The right to object to the accounts was first introduced more than 150 years ago, at a time when the auditor was the only individual to whom an elector could raise issues of concern.

**OUR PROPOSALS**

- 4.51. The public can now raise concerns through a wide variety of appropriate avenues for redress, including the Local Government Ombudsman (in relation to maladministration) and the Information Commissioner (on matters concerning the rights that individuals have under the Freedom of Information and Data Protection Acts). Publication of all expenditure over £500 also makes spending more transparent and more readily available to the public.
- 4.52. With this in mind, we consider that the rights for local government electors to object to the accounts are both outdated and over-burdensome on auditors, local public bodies and council tax payers.
- 4.53. Under the new local audit framework, members of the public would retain the right to make representations to the auditor, raise issues with the auditor and to ask the auditor questions about the accounts.
- 4.54. While the right to make formal objections would be removed, the local public body would still be required to advertise that its accounts had been prepared and there will be increased publicity requirements for audited bodies. The auditor would still be open and transparent about the audit, and would consider any relevant representations from the public. The auditor would have discretion to decide whether to follow-up any issues raised by local citizens, having regard to the significance of the issue, the amounts of public money involved and the wider public interest. If the auditor decided not to consider a representation further, the decision would be amenable to judicial review, should the citizen who made the representation be dissatisfied with the decision.
- 4.55. We propose that auditors should also be brought within the remit of the Freedom of Information Act to the extent that they are carrying out their functions as public office holders. Therefore, only information in connection with a public audit would be within the remit of a freedom of information request. However, we recognise that there are costs associated with responding to freedom of information requests which could have an impact on audit fees. We would also need to consider whether this could be detrimental to the auditor and audited body's relationship.
- 4.56. We also envisage that local public bodies should be required to publish their accounts and the auditor's report on the website.
- 4.57. We consider that these proposals would provide a balance between transparency and disproportionate cost.

**Q38: Do you agree that we should modernise the right to object to the accounts? If not, why?**

**Q39: Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?**

**Q40: Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?**

**Q41: What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?**

## Section 5

### 5. Arrangements for smaller bodies

#### Current system

##### **The limited assurance audit regime**

The limited assurance audit regime was first introduced in 2001-02 for local councils (parish meetings and parish and town councils) where neither income nor expenditure exceeded £500,000. This threshold was increased to £1m in 2006.

The regime is designed specifically to minimise the audit requirement upon, and cost to, these small bodies. The audits are based on the submission by the body to the auditor of an annual return that is subject to a desk review. The audit report provides a limited level of assurance to the body commensurate with the amount of work undertaken.

The basic audit approach is common to all smaller bodies. However, for those bodies with annual income or expenditure over £200,000, auditors are required to carry out additional testing as part of their audit approach to reflect the higher risk to public funds; this is referred to as the intermediate audit. In addition, on a random sample basis, 5 per cent of those bodies operating below the £200,000 threshold will also be selected annually for intermediate audit at no extra cost.

- 5.1. Under the current legislation, the statutory audit requirements for smaller bodies are the same as those for larger bodies. However, since 2002, the Audit Commission has ensured that these are met proportionately through a separate “limited assurance” framework for bodies with an income or expenditure less than £1m. The smallest bodies currently do not pay any fees for their annual audit.
- 5.2. To bring this into line with the framework under the Companies Act the £1m threshold for local public bodies is being increased to not more than £6.5m.

#### **OTHER SECTORS**

- 5.3. The companies and charities sector, both have arrangements in place to ensure a more proportionate level of audit for smaller bodies.

#### **Charities**

- 5.4. The Charities Act 1993 put in place a system by which some small charities could be subject to independent examination rather than a full audit.

### Independent Examination v Audit (Charity Sector)

The two main differences between independent examination and audit relate to:

- Who can act
- The nature of the report.

	Who can act	The nature of the Report
<b>Independent Examination</b>	An independent person who is reasonably believed by the body to have the requisite knowledge and practical experience to carry out a competent examination of the accounts. No specific qualification is necessarily required but the person must have a good understanding of accounts.	Provides a "negative assurance" on the accounts. The independent examiner declares that no evidence was found of lack of accounting records, of accounts failing to comply with the records, nor of other matters that need to be disclosed.
<b>Audit</b>	Must be a registered auditor	An audit report will need to provide an opinion on the financial statements

5.5. The level of independent examination is dictated by the level of gross income of the charity.

Level of Gross Income	External scrutiny	Annual Report
Not exceeding £10,000	There is no requirement to have the accounts independently examined or audited	The trustees must prepare an annual report but it may be simplified.
Over £10,000 but not exceeding £100,000	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor	An Annual Report must be prepared but it may be simplified
Over £100,000 but not exceeding £500,000 (total assets not exceeding £2.8m)	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor.  If an independent examination is chosen and gross income exceeds £250,000 then the independent examiner appointed must be a member of a body specified under the 2006 Act.	An Annual Report must be prepared but it may be simplified
Exceeds £500,000 (or a charity whose gross assets exceed £2.8m and gross income exceeds £100,000)	A statutory audit is required (subject to specified exceptions) and the accounts must be audited by a registered auditor.	A full Annual Report must be prepared

- 5.6. Company charities used to be dealt with under the Companies Act 2006 system. However, from the financial year beginning on or after 1 April 2008 all charities (including company charities) are subject to the Charities Act 1993 system. The purpose of this change was to ensure that the scrutiny of small company charities was consistent with charity law requirements and in particular allowed for the independent examination of eligible small company charities.
- 5.7. Company charities which meet the Companies Act definition of a small company may elect for exemption from audit under the Companies Act and opt to have their accounts audited or independently examined under the Charities Act 1993.
- 5.8. Independent examination offers a lower cost alternative to charities that do not require the higher level of assurance that audit can provide. Changes effective from this date also result in new requirements for the audit of small groups when their accounts are prepared by parent company charities.

### **Companies**

- 5.9. The Companies Act 2006 sets out the thresholds which must be met for a company to be deemed a small company. These are, at least two of the following three conditions:
- annual income or expenditure (gross income for charities) not exceeding - £6,500,000
  - balance sheet total not exceeding - £3,260,000
  - average numbers of employers not exceeding – 50
- 5.10. These thresholds are subject to periodic amendment.
- 5.11. There is exemption from audit for **certain** small companies if they are eligible and wish to take advantage of it. To qualify for audit exemption, a company must:
- qualify as small (per paragraph 5.9) **and**
  - have an income or expenditure of not more than £6.5m **and**
  - have a balance sheet total of not more than £3.26m
- 5.12. Even if a small company meets these criteria, it must still have its accounts audited if this is demanded by a member or members holding at least 10 per cent of the nominal value of issued share capital or holding 10 per cent of any class of shares. Public companies are not eligible for exemption.

### **OUR PROPOSALS**

- 5.13. Both the limited assurance and independent examination regimes outlined above provide a simpler, more proportionate, form of external scrutiny than a full audit, but still provide assurance that the accounts of the bodies involved have been reviewed by an independent person.

- 5.14. We aim to bring arrangements for smaller local public bodies into line with other sectors. We are therefore considering a process under which the income and expenditure of a body determines what 'level' of audit or scrutiny is required; the greater the income/expenditure, the more scrutiny is required.
- 5.15. We propose that the 1,200 or so bodies with income or expenditure less than £1,000 would not be subject to an external examination or audit, as the risk to public funds is low and any external examination or audit fees would be disproportionate to their income or expenditure. These bodies do not currently pay a fee for an audit or examination, and requiring them to now do so would clearly increase their costs.
- 5.16. Bodies with an income or expenditure between £1,000 and the upper threshold of £6.5m would be subject to an independent examination rather than a full audit.
- 5.17. Examiners of small bodies should act for a maximum period of 10 years (which is in line with the current practices of the Audit Commission).
- 5.18. We propose that the independent examination of smaller bodies should be similar to that followed in the charities sector. As we have set out above, the charities sector provides for a reduced audit for bodies with income or expenditure below £500,000. However, the Audit Commission has provided limited assurance to all bodies with income or expenditure under £1m recently raised to not more than £6.5m. We are keen to ensure that smaller bodies are not disproportionately affected by our proposals. Therefore we propose a staged model such as the model followed in the charities sector, where the level of examination and the qualifications that the independent examiner must have are based on the income or expenditure of the body. However, this staged model would reflect the current £6.5m threshold used by the Audit Commission for their limited assurance regime. The independent examination of smaller bodies might therefore look as follows:



	Number	% small bodies market	Income/Expenditure	Scrutiny
<b>Level 1</b>	1,200	12%	Public bodies with expenditure less than £1,000	<ul style="list-style-type: none"> <li>Existing governance and accounting arrangements</li> <li>Annual accounts published</li> <li>Positive confirmation that annual accounts have been produced and published via the precept request (or equivalent)</li> <li>No external audit/scrutiny</li> </ul>
<b>Level 2</b>	Approx 6,400 bodies	64%	Public bodies with expenditure between £1,000 and £50,000	<p>As level 1, but</p> <ul style="list-style-type: none"> <li>(Under option 1 below) the county or unitary council to appoint an independent examiner (no specific qualifications needed, but County or unitary council should assure itself that the relevant person has the requisite experience and expertise) to assess its accounts. In practice the Section 151 officer or full council, having regard to advice provided by the audit committee, would make this appointment. The independent examiner might be an officer of the county or unitary council.</li> <li>The body must also publish the details of the examiner.</li> </ul>
<b>Level 3</b>	Approx 1,625 bodies	16%	Public bodies with expenditure between £50,000 and £250,000	<p>As level 2, but:</p> <ul style="list-style-type: none"> <li>Existing internal audit arrangements</li> <li>Independent examiner must hold a professional qualification to assess its accounts.</li> </ul>
<b>Level 4</b>	Approx 675 bodies	7%	Public bodies with expenditure between £250,000 and £6.5m	<p>As level 3, but</p> <ul style="list-style-type: none"> <li>Independent examiner must hold a professional qualification and be registered as a public auditor.</li> </ul>

## Appointing the examiner

### OPTION 1

5.19. We consider that the appointment process for the independent examiner should be proportionate. An audit committee could be a significant cost for a smaller body. Instead, where an independent examiner is required, we propose that the county or unitary authority should be responsible for appointing the independent examiner (see table above). If smaller bodies were responsible for appointing their own examiner in the absence of an audit committee there would be a lack of independence in the appointment process. In addition, they may not achieve a good price for this service.

5.20. If the county or unitary authority was responsible for the appointment this would provide a degree of independence to the appointment process for smaller bodies, and they would have the ability to appoint independent examiners for all of the smaller bodies in their areas, providing the opportunity to make savings through economies of scale.

### OPTION 2

5.21. The small body would be required to make arrangements for the appointment of the independent examiner, ***including*** the involvement of an audit committee. This would give the body the freedom to make the necessary arrangements which might include joining up with other small bodies, either locally or providing similar services. The smaller bodies would be able to arrange a joint audit committee, with safeguards to provide for independence. Alternatively, the small body would be able to join with a larger local public body and utilise their audit committee. Under this option the scope of the examination would still be as set out in the table above.

**Q42: Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?**

**Q43: Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?**

**Q44: What guidance would be required to enable county/unitary authorities to:**

- a.) **Appoint independent examiners for the smaller bodies in their areas?**
- b.) **Outline the annual return requirements for independent examiners?**

**Who should produce and maintain this guidance?**

**Q45: Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?**

**Q46: Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?**

**Q47: Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?**

### **Public interest reporting for smaller bodies**

5.22. There would be no auditor to receive queries or objections from the public, and there would be no public interest reporting. However, if the examiner identified issues giving cause for concern we propose that these could be raised with the audited body, or the county or unitary authority. The county or unitary authority could be given the power to appoint an auditor to then carry out a public interest report on the matters raised with the audited body. Sanctions could include a power to make the next precept (partly or wholly) conditional on the matters raised being addressed.

**Q48: Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?**

### **Objections to accounts of smaller bodies**

5.23. For bodies with an income or expenditure greater than £6.5 million we are proposing to modernise the system for dealing with objections to accounts.

5.24. In the case of smaller bodies, we propose that the independent examiner would be able to consider whether to refer issues raised by citizens to the proper officer (possibly the s151 officer) of the county or unitary authority. That authority would be provided with powers to take action, which might include appointing an auditor to consider those issues and report in public to the examined body. The costs for dealing with the representation would fall to the smaller body.

**Q49: Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?**

### **Regulatory regime for smaller bodies**

5.25. For smaller bodies the more proportionate approach described of independent examination would not give rise to the same level of scrutiny as an external audit.

5.26. However, if appointing the independent examiner to the smaller body, or if provided with powers to take action, which might include appointing an auditor to carry out a public interest report, the county or unitary council would, essentially, be the regulator for this sector.

**Q50: Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?**

## Section 6

### 6. List of consultation questions

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?
2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?
4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?
6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?
7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?
8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?
9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?
11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?
12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?
15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?
16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?
17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?
18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?
19. Is this a proportionate approach to public involvement in the selection and work of auditors?
20. How can this process be adapted for bodies without elected members?
21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?
22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?
27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?
28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?
29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?
30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?
31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?
32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?
38. Do you agree that we should modernise the right to object to the accounts? If not, why?

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?
40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?
41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?
42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?
43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?
44. What guidance would be required to enable county/unitary authorities to:
- a.) Appoint independent examiners for the smaller bodies in their areas?
  - b.) Outline the annual return requirements for independent examiners?
- Who should produce and maintain this guidance?
45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?
46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?
47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?
48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?



## Appendix A

### **Audited bodies' published accounts – current arrangements**

The annual accounting statements that audited bodies, other than NHS bodies and probation bodies, are currently required to publish are prescribed in Accounts and Audit Regulations made under section 27 of the Audit Commission Act 1998. A new consolidated set of the regulations has recently been issued. The accounting statements for all the bodies must cover the year ending on 31 March.

The larger bodies (broadly those with annual income or expenditure of more than £6.5m) must produce a “statement of accounts”, based, as from the 2010-11 financial year, on International Financial Reporting Standards as those standards are applied by the *Code of Practice on Local Authority Accounting in the United Kingdom*, published by CIPFA/LASAAC. The statement must also conform to specific requirements set out in the Accounts and Audit Regulations and other legislation. A statement of accounts includes all the elements that would be expected in a comprehensive set of accounts, including:

- movement in reserves statement
- comprehensive income and expenditure account
- balance sheet
- cash flow statement, and
- supporting notes, including a summary of significant accounting policies

Where the body has significant subsidiaries or associates Group Accounts must also be included. The statement of accounts is accompanied by a statement of internal control or annual governance statement, setting out the body's annual assessment of how it is managing and controlling the risks it faces in achieving its aims and legal obligations.

The smaller bodies are given a choice on the form of their annual accounting statements. They can prepare either:

- a statement of accounts on the same basis as a larger body or
- an income and expenditure account and statement of balances or
- where the body's annual income or expenditure is no more than £200,000, a record of receipts and payments

For the second and third options the requirements are specified in an Annual Return that the body is required to present to the auditor and publish. The form of the Annual Return is laid out in *Governance and Accountability for Local Councils, a Practitioners' Guide*, available from the National Association of Local Councils.

The accounting statements for both the larger and smaller bodies must be audited (for smaller bodies the audit is a ‘limited assurance’ - a simpler, more proportionate, form of external scrutiny than a full audit). The statements, together with the auditor's opinion on them, must then be published, and this should be done by 30 September following the financial year end. The larger bodies are required to publish the statements on their websites, and the smaller bodies by displaying them within their area, though both are free to use other means of publication in addition.

## Appendix B

### List of bodies to which the Audit Commission appoints auditors in England

The audit bodies which are specified in primary legislation are<sup>3</sup>:

- A local authority (meaning a county council, district council, London borough council and a parish council).
- A joint authority (which means an authority established by Part 4 of the Local Government Act 1985, includes metropolitan county fire and rescue authorities).
- The Greater London Authority.
- Passenger Transport Executive.
- A functional body (meaning Transport for London, the London Development Agency, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority).
- The London Pensions Fund Authority.
- The London Waste and Recycling Board.
- A parish meeting of a parish not having a separate parish council.
- A committee of a local authority, including a joint committee of two or more such authorities.
- The Council of the Isles of Scilly.
- Any Charter Trustees constituted under section 246 of the Local Government Act 1972.
- A Health Service Body prepared under paragraph 3(1) of Schedule 15 to the National Health Service Act 2006.
- A Port Health Authority constituted under section 2 of the Public Health (Control of Disease) Act 1984.
- The Broads Authority.
- A national park authority.
- A conservation board established by order under section 86 of the Countryside and Rights of Way Act 2000.
- A police authority established under section 3 of the Police Act 1996.
- A fire and rescue authority constituted by a scheme under Section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies.
- An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities).
- A licensing planning committee.
- An internal drainage board.
- A local probation board established under section 4 of the Criminal Justice and Court Services Act.

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<sup>3</sup> It is proposed through the Police Reform and Social Responsibility Bill that police and crime commissioners and chief constables will be added to schedule 2 of the Audit Commission Act 1998 and thereby become a body for which the Audit Commission will appoint auditors to. In addition, the Health Bill refers to GP Consortia being brought within the Audit Commission Act 1998.

- A probation trust.
- An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009.
- A combined authority established under section 103 of that Act.
- The accounts of the collection fund of the Common Council and the accounts of the City fund.
- The accounts relating to the superannuation fund maintained and administered by the Common Council under the Local Government Pension Scheme Regulations 1995.

## Appendix C

### **Recognised supervisory bodies and recognised qualifying bodies in England**

In the companies sector, audit firms must be registered with, and subject to supervision by a recognised supervisory body and persons responsible for company audit work at a firm must hold a recognised qualification awarded by a recognised qualifying body.

There are currently five recognised supervisory bodies:

- Association of Authorised Public Accountants
- Association of Chartered Certified Accountants
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

and six recognised qualifying bodies:

- Association of Chartered Certified Accountants
- Association of International Accountants
- Chartered Institute of Public Finance and Accountancy
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland



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## FUTURE OF LOCAL PUBLIC AUDIT

### CONSULTATION QUESTIONS AND PROPOSED RESPONSES

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

*The Council believes that the correct design principles (localism and decentralisation, transparency, lower audit fees and higher standards of auditing) have been identified and that the proposals in the consultation paper meet these principles. In view of the current financial climate the Council's view is that lower audit fees should be the overriding design principle.*

2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?

*The Council does not have a view on the future audit of probation trusts.*

3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

*Given its role in providing Parliament with assurance on public spending, the Council agrees that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance.*

4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

*In the Council's view the system for approving and controlling statutory auditors under the Companies Act 2006 works well and sees no reason to adopt a different approach for statutory local public auditors.*

5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

*The Council believes that the Financial Reporting Council is best placed to act as regulator of local public audit work, as establishing a separate body from the one that regulates Companies Act audits would lead to a duplication of work. Responsibility for maintaining and reviewing the register of statutory local public auditors should rest with the recognised supervisory bodies (essentially the professional accountancy bodies) as they already fulfil a similar role for Companies Act audits.*

6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

*The Council's view is that in order to achieve lower audit fees competition between a wide range of audit firms is essential. At present the Audit Commission contracts only 30% of its audit work to five private firms. This is considered to be unduly restrictive and as such the Council believes that public audit experience is not essential. However, all firms intending to enter the market should be able to demonstrate that they have competent audit resources, capable of undertaking public sector audits, regardless of the sector in which they have previously worked.*

7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

*Based on our response to the previous question the Council believes that no additional criteria are required.*

8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

*The Council does not believe it is necessary to define a public interest entity for the purposes of local audit regulation. Whilst Council's are significant because of the nature of their business and their number of employees, their impact and influence is largely contained within a specific geographical area. Adding a further layer of oversight also has the potential to increase costs which would, no doubt, be passed on to the audited bodies.*

9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

*As the costs of additional regulation would be passed onto audit firms and reflected in fees, the Council's view is that local public bodies should not be categorised as public interest entities.*

10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

*Our response to the previous question indicates that we do not see a role for the regulator.*

11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?



*Collaboration with other public bodies can improve efficiency and reduce costs and as such the Council supports the proposed legislation that provides for both joint procurement of auditors and joint audit committees.*

12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

*The Council supports the criteria identified to ensure the quality of independent members.*

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

*Ideally, independent members should have financial expertise. However, it is necessary to recognise the difficulties that councils encounter recruiting independent members and financial expertise is, therefore, desirable rather than essential.*

14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

*The Council believes sourcing suitable independent members could be problematic and whilst providing remuneration may attract further candidates this is not affordable in the current financial climate.*

15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

*The proposals do provide the necessary safeguards and of the options available the Council's preference is that only the Chair and a minority of members are independent of the local public body. If the independent members disagree with the audit committee's decisions this should be recorded in the committee's minutes. Full Council should be made aware of the reasons for independent members dissenting before accepting (or otherwise) the audit committee's recommendations.*

16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

*The Council supports a localist approach and therefore takes the view that the legislation should take a minimalist approach when specifying the role of the audit committee.*

17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

*These are appropriate roles and responsibilities for the Audit Committee*

*but in line with our response to the previous question these should be left to local discretion with the legislation specifying as little as possible.*

18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

*The appointment of an auditor is not dissimilar to the procurement of other services, which Councils undertake on a regular basis. The existing public procurement rules are more than adequate and as such the Council does not believe a statutory code of practice or guidance is necessary for the appointment of an auditor, as this is likely to introduce inefficiencies and additional costs into the process..*

19. Is this a proportionate approach to public involvement in the selection and work of auditors?

*The Council does not believe the involvement of the public in the appointment of an auditor is either necessary or adds value. There are sufficient mechanisms in place within existing legislation if members of the public have concerns about the selection and work of auditors.*

20. How can this process be adapted for bodies without elected members?

*The Council does not have a view on this.*

21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

*The Council believes that option 1 whereby the Secretary of State would be able to direct the local public body to appoint an auditor provides a sufficient safeguard. Sanctions should be introduced for local public bodies who fail to comply with the Secretary of State's direction.*

22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

*There should be no requirement to inform a body when an auditor has been appointed. It should however be the duty of either the Monitoring Officer or the Chief Financial Officer to notify the Secretary of State should the local public body fail to appoint an auditor by the required date.*

23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

*See answer to previous question. Only the Secretary of State need be notified in the event of failure to appoint an auditor by the required date.*

24. Should any firm's term of appointment be limited to a maximum of

two consecutive five-year periods?

*The Council agrees that the term of appointment should be limited to a maximum of two consecutive five-year periods.*

25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

*The Council's view is that existing ethical safeguards are adequate and that no additional safeguards are required for the audit of public bodies.*

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

*The Council agrees that the proposals strike the correct balance.*

27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

*The Council thinks the proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality and, therefore, does not believe that any additional safeguards are required.*

28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

*The Council does not see the need to differentiate between the Companies sector and the public sector and therefore provisions should be put in place to prevent auditors for seeking to limit their liability in an unreasonable way. A balance must, however, be struck as there is a direct relationship between the extent of an auditor's liability and their fees.*

29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?

*The Council's view is that option 1 is preferable on the grounds that this provides the necessary audit assurance at least cost.*

30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

*There should be no mandatory requirement to publish an annual report, which should be a matter of local choice.*

31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

*If a Council publishes an annual report it will have the option to include these matters within the body of the report if it chooses to do so.*

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

*The Council believes that, as at present, the auditor need only provide assurance on the financial statements. If a Council also wishes to seek assurance on its annual report this should be a matter of local choice. The cost of this work should be met by the body opting to have the auditor provide assurance on its annual report.*

33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

*The Council does not believe any guidance is necessary.*

34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

*The proposed safeguards appear adequate.*

35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

*It would not be unreasonable for auditors to provide additional services if these are not significant and the nature and cost of the services provided is transparent. The auditor must be seen to be independent of the local public body.*

36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

*Existing ethical standards coupled with the permission of the audit committee would seem to strike the right balance for auditors wishing to provide additional services.*

37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

*The designation of the auditor and the audit committee as prescribed persons under the Act appears sensible. To do otherwise would create an additional*

*role and potentially increase costs.*

38. Do you agree that we should modernise the right to object to the accounts? If not, why?

*The Council agrees with the proposal to modernise the right to object to the accounts.*

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

*The right to make representations to the auditor or seek judicial review seems a reasonable approach to modernising the right to object to the accounts.*

40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

*The Council agrees with this in principle, provided that it does not result in an increase in costs.*

41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

*There should be no significant impact on the relationship provided there is good communication between the auditor and the audited body about any Freedom of Information Act requests and their responses.*

***The following questions relate to arrangements for smaller bodies and do not, therefore, apply to Bracknell Forest Council. As such the Council has not expressed any views on arrangements for these bodies.***

42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

44. What guidance would be required to enable county/unitary authorities to: a.) Appoint independent examiners for the smaller bodies in their areas? b.) Outline the annual return requirements for independent examiners? Who should produce and maintain this guidance?

45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller

body, e.g. a port health authority, straddles more than one county/unitary authority?

47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?
48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

## GOVERNANCE AND AUDIT COMMITTEE 28th JUNE 2011

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### INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2010/11 Head of Audit and Risk Management

#### 1. PURPOSE OF REPORT

- 1.1 Under the CIPFA Code of Practice for Internal Audit in Local Government, the Head of Audit is required to provide an annual assurance report timed to support the Annual Governance Statement (AGS).

#### 2. RECOMMENDATION

- 2.1 **The Governance and Audit Committee note the Head of Audit and Risk Management's Annual Report setting out the Head of Internal Audit's Opinion for 2010/11.**

#### 3. REASONS FOR RECOMMENDATION

- 3.1 To support assurances set out in the Annual Governance Statement and ensure compliance with the CIPFA Code of Practice for Internal Auditors.

#### 4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Committee could choose not to receive the Head of Audit and Risk Management's Annual Report setting out the Head of Internal Audit's Opinion but would then not be aware of the relevant assurances from Internal Audit supporting the Annual Governance Statement and would not be complying with the CIPFA Code of Practice for Internal Auditors.

#### 5. SUPPORTING INFORMATION

- 5.1 The Council is required under the Accounts and Audit (England) Regulations 2011 to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".
- 5.2 The CIPFA Code of Practice for Internal Auditors requires the Head of Internal Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement. This report should include an overall opinion on the adequacy of the control environment.
- 5.3 The attached report sets out the Head of Internal Audit's Opinion for 2010/11 summarising the results and conclusions of Internal Audit's work for 2010/11 and taking assurance from other independent sources of assurance such as from the Council's External Auditors and inspections carried out by a number of independent review agencies. No system of control can provide absolute

assurance against material misstatement or loss, nor can Internal Audit give that assurance. This opinion can, therefore, only provide reasonable and not absolute assurance based on the work undertaken and areas audited.

## **6. ADVICE FROM STATUTORY OFFICERS**

6.1 Borough Treasurer  
Nothing to add to the report

6.2 Borough Solicitor  
Nothing to add to the report

6.3 Equalities Impact Assessment  
Not applicable

6.4 Strategic Risk  
The Head of Internal Audit's assurance report provides her opinion on the control environment in place at the Council. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether.

## **7 CONSULTATION**

7.1 Not applicable.

### Contact for further information

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Doc. Ref  
HOIAO 1011





# **BRACKNELL FOREST COUNCIL**

**ANNUAL REPORT OF THE HEAD OF AUDIT AND RISK  
MANAGEMENT:**

**HEAD OF INTERNAL AUDIT OPINION 2010/11**

## **1. BACKGROUND**

The Council is required under the Accounts and Audit (Amendment) (England) Regulations to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

The CIPFA Code of Practice for Internal Auditors requires the Head of Internal Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement.

## **2. PURPOSE OF THE HEAD OF INTERNAL AUDIT’S ANNUAL REPORT**

The Head of Internal Audit’s annual report to the organisation must:

- Include an opinion on the overall adequacy and effectiveness of the organisation’s control environment;
- Disclose any qualifications to that opinion together with the reasons for that qualification;
- Present a summary of the audit work from which the opinion is derived , including reliance placed on work by other assurance bodies;
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement and opinion can, therefore, only provide reasonable and not absolute assurance. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise.

## **3. OPINION ON THE CONTROL ENVIRONMENT IN PLACE DURING 2010/11**

Based on the work of Internal Audit during the year and other sources of assurance outlined, the Head of Audit and Risk Management has given the following opinion:

- From the internal audit work carried out during the year which resulted in a significant or satisfactory assurance opinion in 70 out of 74 cases where an opinion was given, the Head of Audit and Risk Management is able to

provide reasonable assurance that for most areas the Authority has sound systems of internal control in place in accordance with proper practices. The details of those areas where significant weaknesses were identified are set out in section 4.3;

- key systems of control are operating satisfactorily except for the areas referred to above ; and
- there are adequate arrangements in place for risk management and corporate governance.

#### 4. INTERNAL CONTROL

##### 4.1 Internal Audit Performance

The resources available for internal audit are finite and not all areas can be covered every year. Therefore internal audit resources are allocated using a risk based approach. The Internal Audit Plan for 2010/11 was considered and approved by the Governance and Audit Committee on 29th March 2010. The delivery of the individual audits in the Internal Audit Plan for 2010/11 was mainly undertaken by H W Controls and Assurance although 4 audits were delivered in house and 3 audits were undertaken by Reading Internal Audit Services.

Some alterations were made to the original plan during the year in response to information gained during the year combined with known changes in risk. At the time of writing this report, reports for 65 audits in the 2010/11 Plan had been finalised, 10 were in draft awaiting final agreement and 2 audits were still in progress. In my Annual Report last year I reported that 2 reports were still being drafted in June 2010 and 14 were in draft awaiting finalisation.

##### 4.2 Summary of the Results of 2010/11 Audits

The results of the 75 audits where reports had been issued during the year are set out below. In 1 case during 2010/11 (2009/10:3) the report related to a grant claim requiring certification by Internal Audit in this case no opinion was required.

<b>ASSURANCE</b>	<b>2010/11</b>	<b>2009/10</b>
Significant	9	4
Satisfactory	61	70
Limited	4	7
No Assurance	-	-
No Opinion Given	1	3
<b>Total</b>	<b>75</b>	<b>84</b>

**2009/10 AUDIT REPORTS ISSUED DURING 2010/11**

No.	Audit	Date Draft Report Issued	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
	<b>Children, Young People and Learning</b>											
1	Risk Management	10/12/10	No			X			-	3	1	Finalised
	<b>Adult Social Care and Health</b>											
2	Direct Payments	5/7/10	No	Yes		X			-	6	6	Finalised

**2010/11 AUDIT PLAN**

No.	Audit	Draft Report Date	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
	<b>Chief Executive's Office</b>											
1	Risk Management	21/9/10	No	Yes	X				-	-	-	Finalised
2	Data Quality	25/10/10	No – Exit meeting held after report was issued	Yes		X			-	12	3	Finalised
	<b>Corporate Services</b>											
3	Risk Management	20/8/10	No	Yes		X			-	3	-	Finalised
4	Imprests	26/5/10	Yes	Yes		X			-	5	-	Finalised
5	Commercial Properties	8/6/10	Yes	Yes		X			-	2	-	Finalised
6	VAT – (D&T)	22/10/10	Yes	Yes		X			-	2	1	Finalised

No.	Audit	Draft Report Date	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
7	Council Tax Part 1 (Under Pericles)	15/10/10	Yes	Yes		X			-	7	1	Finalised
8	NNDR Part 1(Under Pericles)	25/10/10	Yes	Yes		X			-	6	-	Finalised
9	Design & Surveyors Services	7/9/10	Yes	Yes		X			-	4	-	Finalised
10	Recruitment & Pre-employment Checks (RBC)	22/9/10	N/A – Exit meeting not held	Yes		X			-	4	2	Finalised
11	Pericles Replacement IT Audit Part 1 (limited to the design of controls)	4/10/10	N/A – Exit meeting not held			X			-	1	-	Finalised
12	Adherence to Government Connect (GSI code)	9/3/11	Yes	Yes	X				-	-	-	Finalised
13	Compliance with PCI Data Security Stds	20/10/10	Yes	Yes			X		2	-	1	Finalised
14	Budgeting/Budgetary Control	18/4/11	Yes (exit meeting was delayed by HW)	No	X				-	-	-	Finalised
15	Treasury Management	27/10/10	Yes	Yes	X				-	-	-	Finalised
16	Creditors	6/12/10	No	Yes		X			-	2	1	Finalised
17	Debtors	14/12/10	Yes	Yes		X			-	2	-	Finalised
18	Main Accounting inc. Reconciliations	25/1/11	Yes	Yes		X			-	-	3	Finalised
19	Payroll	6/12/10	Yes	Yes		X			-	1	1	Finalised
20	Cash Management	14/1/11	Yes	Yes		X			-	-	2	Finalised
21	Council Tax Part 2 (Northgate)	21/2/11	Yes	Yes		X			-	8	1	Finalised
22	NNDR Part 2 (Northgate)	1/3/11	Yes	Yes		X			-	4	1	Finalised

No.	Audit	Draft Report Date	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
23	N3 Network Connection (Parts 1 & 2) It audit	26/1/11	Yes	Yes		X			-	2	-	Finalised
24	Smart Office (Replacing Carestore) IT audit	17/3/11	Yes	Yes		X			-	2	4	Finalised
25	Purchasing and Ordering in Corporate Services	26/4/11	Yes	Yes		X			-	2	-	In draft
-	Procurement Cards											Deferred to 2011/12
26	Mobile Devices											WIP
27	Pericles Replacement (Post Implementation IT audit)	11/5/11	Yes			X			-	-	3	In draft
28	ISMS (Info strategy & Implementation of Info. Sec. Man. System) IT audit	22/3/11	Yes	No		X			-	-	4	In draft
	<b>Children, Young People and Learning</b>											
29	School Census	23/11/10	No	Yes		X			-	4	8	Finalised
30	Off Site Activities	27/1/11	No				X		5	11	2	Finalised
31	<i>Sandy Lane Primary (in-house)</i>	4/5/10	Yes	Yes		X			-	7	1	Finalised
32	<i>Wildmoor Heath School (in-house)</i>	30/11/10	Yes	Yes			X		6	13	-	Finalised
33	<i>The Pines Follow Up 09/10 Limited (in-house)</i>	22/3/11	Yes	Yes		X			-	-	7	Finalised
34	Cranbourne Follow Up 09/10 Limited	7/7/10	Yes	Yes		X			-	7	-	Finalised
35	Brakenhale	7/7/10	Yes	Yes		X			-	8	2	Finalised
36	Crowthorne Primary	8/7/10	No	Yes		X			-	12	1	Finalised



No.	Audit	Draft Report Date	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
			<i>not applicable to grant claims</i>									
56	Contracting & Brokerage	7/10/10	Yes	Yes		X			-	5	-	Finalised
-	Out of Hours Social Services Support											Deferred to 2011/12
57	Bridgewell Intermediate Care Unit	10/11/10	Yes	Yes		X			-	2	-	Finalised
58	Integrated Adult System (Protocol) Post Imp. IT Audit	24/11/10	No	Yes		X			-	3	1	Finalised
59	<i>Recruitment &amp; Pre-employment Checks (RBC)</i>	20/1/11	Yes	Yes		X			-	2	6	Finalised
60	Financial Assessments & Benefit Checks	8/4/11	Yes	Yes		X						Finalised
61	Receiverships & Appointees	17/12/10	Yes	Yes	X				-	-	-	Finalised
-	Transforming Adult Social Care											Deferred to 2011/12
-	Long Term Conditions											Removed from Plan as Intended objectives covered within other ASCH audits
62	CONTROCC payments (added to	12/5/11	Yes	Yes		X			-	2	2	Finalised



No.	Audit	Draft Report Date	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
	plan)											
	<b>Environment, Culture and Community</b>											
63	Reconciliations	10/6/10	Yes	Yes		X			-	2	-	Finalised
64	Forestcare	20/8/10	Yes	Yes		X			-	1	1	Finalised
65	Cemetery & Crematorium	3/2/11	No	Yes		X			-	1	6	Finalised
66	Licenses	12/7/10	Yes	Yes		X			-	1	1	Finalised
67	Capital Projects	26/4/11	No		X				-	-	-	Draft issued
-	South Hill Park Garden Project											Deferred to 2011/12
68	Housing & Council Tax Benefits Part 1 (under Pericles)	18/10/10	Yes	Yes		X			-	4	-	Finalised
69	<i>Recruitment &amp; Pre-employment Checks (RBC)</i>	3/10/12	Yes	Yes		X			-	6	4	Finalised
70	Procurement & Ordering											WIP
71	Housing & Council Tax Benefits Part 2 (under Northgate)	21/3/11	Yes				X		3	4		Finalised
72	<i>Car Parks (in-house)</i>	4/5/11	Yes	Yes		X			-	5	1	<i>Draft issued</i>
73	Tree Services	4/3/11	Yes			X			-	3	-	Draft issued
74	Libraries	9/3/11	Yes	Yes		X			-	4	3	Finalised
75	Cash Spot Checks	5/4/11	Yes			X			N/A	N/A	N/A	Finalised
-	Housing Strategy											Deferred to 2011/12
76	New Choice Based Lettings (Northgate) IT audit	19/4/11	Yes	Yes	X				-	-	-	Draft issued

No.	Audit	Draft Report Date	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
77	Upgrade of Lifeline System (Tunstall) IT audit	15/4/11	Yes	Yes		X			-	-	2	Finalised
-	Upgrade of GIS IT audit											Deferred to 2011/12

### Assurance Opinion Classifications

Assurance Level	Definition
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system which put the systems objectives at risk and/or the level of compliance or non-compliance puts some of the systems objectives at risk.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

#### 4.3 Significant Control Weaknesses

In forming its opinion, Internal Audit is required to comment on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During 2010/11, there were no audits where no assurance was given. Audits on the following areas resulted in limited assurance opinions: -

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
<b>Corporate Services</b>	<u>Compliance with new PCI Data Security Stds (IT Audit)</u> The overall conclusion for this audit was limited assurance as two Priority 1 recommendations were raised. The first related to issues noted with the physical siting of one of the IT application servers and the need to upgrade the PDQ machines at one Council site. The second recommendation related to storage of details. Internal Audit has been advised that both issues have now been fully resolved.

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
<p><b>Children, Young People and Learning</b></p>	<p><u>Wildmoor Heath School</u>            Limited assurance was concluded overall for this audit due to 6 priority 1 recommendations being raised relating to governance arrangements, training, delays in banking and the need to improve the management and controls over the private fund. The Local Authority continues to support and work with the school in addressing the weaknesses highlighted in the audit report. Progress against the actions is being made by the Governing body and head teacher.</p>
	<p><u>Off Site Activities</u>            Five priority 1 recommendations were raised in the audit report leading to a limited assurance conclusion. The priority 1 recommendations raised were that the Off-Site and Hazardous Activities Manual be updated, that requirements for approval of trips be clarified in the Manual, an up to date contract be agreed with the Off-Site Activities consultant, to obtain management information for monitoring purposes and that processes ensure that full approval is obtained prior to trips going ahead. Officers have advised that a review of the service is underway. The Off- Site Activities consultant is giving a presentation at the Bursar's meeting in May. A consultation with establishments on the shape of the new service will run from the summer half term though to the Autumn half term. A flow chart on the approval process for trips has been drafted and will be issued to schools shortly. A project plan is being developed for the re-tendering of the service.</p>
<p><b>Environment, Culture and Communities</b></p>	<p><u>Housing &amp; Council Tax Benefits Part 2</u>            This audit focussed on benefits following the implementation of the new Northgate system. Three priority one recommendations were raised in this audit report resulting in a limited assurance opinion. The priority one recommendations raised were to ensure that the Northgate system was reconciled to the general ledger , to implement the debtors module of Northgate and to ensure that there was a clear audit trail to demonstrate the transfer of data from the old Pericles system to the new Northgate system. The Chief Officer: Housing has advised that the reconciliation of Northgate to the general ledger has now taken place and the debtor's module went live before the year end and Internal Audit have been provided with further information on the data trail for the transfer of data between the systems.</p>

Directors have responsibility for ensuring that recommendations are actioned. Internal Audit will follow up the recommendations arising from the above audits during quarters 2 and 3 of 2011/12 to ensure that these have been implemented.

In addition, the External Auditors have identified weaknesses in benefits as noted in section 11.4 of this report. The Director of Environment, Culture and Communities and the Chief Officer:Housing attended the Governance and Audit Committee on 22<sup>nd</sup> March 2011 to explain the actions that were being taken to address the weaknesses found. In parallel with this, the Chief Executive agreed with the Head of Audit and Risk Management that Internal audit would carry out 4 unannounced spot check visits during quarters 1 and 2 of 2011/12.

Internal Audit cannot replicate the audit work carried out by the Audit Commission on the Housing Benefit and Council Tax Subsidy Claim neither would this be appropriate. The spot checks will focus on new claims and changes to circumstances processed in 2011/12 and hence impacting on future Subsidy Claims and are designed to focus on weaknesses in documentary evidence supporting benefit assessments as identified by the External Auditors to test that necessary improvements have been made. Internal Audit is liaising closely with the External Auditors on the design of the tests and these are being refined for each spot check visit in consultation with the External Auditors.

#### 4.4 Feedback from Client Quality Questionnaires

The overall response from client questionnaires for 2010/11 was positive and the results are summarised as follows:

DEPARTMENT	SATISFIED	NOT SATISFIED	TOTAL
Total for 2010/11	60	5	65
Total for 2009/10	56	4	60

All unsatisfactory responses are followed up to identify any lessons to be learned for future reviews and any necessary action required, which can include the relevant fieldwork auditor not being used on any further Bracknell Forest Council audits. Details of questionnaires where auditees were not satisfied with the audit are set out below together with the response from our audit service provider (H W Controls and Assurance).

Audit title	Reason for unsatisfactory response	Audit's response
<b>Budgeting and Budgetary Control</b>	<ul style="list-style-type: none"> <li>audit not completed in a timely fashion and auditee not kept informed of progress</li> <li>assumptions made in report without discussion with auditee.</li> </ul>	<ul style="list-style-type: none"> <li>audit delayed due to the auditor leaving and anew auditor taking over</li> <li>incorrect assumption made related to the follow up of a recommendation which arose due to miscommunication</li> </ul>
<b>ISMS (Info strategy &amp; Implementation of Info. Sec. Man. System) IT audit</b>	<ul style="list-style-type: none"> <li>one of the auditees had not been asked for feedback on the audit scope</li> <li>one auditee was on leave and felt she did not have sufficient time to comment on the draft</li> </ul>	<ul style="list-style-type: none"> <li>the auditor felt that this auditee's involvement in the audit was relatively small hence she had not been invited to comment on the scope.</li> <li>on her return from leave, the auditee still had 10 days remaining for her to comment</li> </ul>
<b>Great Holland's Primary School</b>	<ul style="list-style-type: none"> <li>audit was delayed due to the auditor being ill and hence the audit was spread over several weeks. The initial report was not accurate.</li> </ul>	<ul style="list-style-type: none"> <li>inaccuracies were corrected and the auditee was happy with the revised report.</li> </ul>
<b>The Spot Sandhurst - Youth Centre</b>	<ul style="list-style-type: none"> <li>auditee raised concerns around the audit process, in particular discussions with the centre administrator.</li> </ul>	<ul style="list-style-type: none"> <li>a further exit meeting was held to discuss the concerns raised and as a result amendments were made to the report.</li> </ul>
<b>Services to Schools</b>	<ul style="list-style-type: none"> <li>auditor failed to attend planned meetings</li> <li>no questions were raised on the information provided for the audit</li> <li>no exit meeting was held as no recommendations were raised</li> <li>the auditee had expected some</li> </ul>	<ul style="list-style-type: none"> <li>the auditor's overall track record with auditees in terms of conduct has historically been good.</li> <li>assurance opinion was challenged as part of the HW review process The review process ensured that the work was completed in accordance to the requisite standard.</li> </ul>

	recommendations for improvement.	
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#### **4.5 H W Controls and Assurance Quarterly Assurance Reports**

Each quarter during the year, the internal audit service provider is required by the terms of the contract to produce a quarterly internal audit assurance report, which includes an overall assurance opinion. All quarterly reports for 2010/11 gave a satisfactory assurance opinion over the system of internal controls within the authority.

#### **4.6 Review of the Effectiveness of the System of Internal Audit**

During 2009/10 the Audit Commission, undertook a detailed review to assess the Council's internal audit function against the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Audit Commission concluded in May 2010 that Internal Audit at Bracknell Forest provides a good standard of service and that the Authority complied with all eleven standards of the Code. All recommendations raised for Internal Audit have been addressed. The Head of Audit and Risk Management revisited the Code in May 2011 and confirmed that we continue to comply with the Code. Completed client questionnaires indicate that auditees were satisfied in 92% of cases.

### **8. OTHER INTERNAL AUDIT ACTIVITIES**

#### **8.1 National Fraud Initiative (NFI)**

The NFI is a biennial data matching exercise first introduced in 1996 and conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies. Bracknell Forest Council is obliged to participate in this. During the first half of 2010/11 Internal Audit coordinated the submission of the mandatory data. Resulting matches started to be returned in the first few months of 2011 and the return of data matches is still ongoing.

Internal Audit is overseeing the investigation of data matches within service areas. To date, investigations have identified the following.

- Duplicate payments totalling £9,045 which have been recovered/offset against further payments due to the relevant suppliers;
- Overpayments to residential homes totalling £9,959 relating to deceased residents which are now being offset against ongoing payments to the homes for other residents;
- A benefit overpayment of £7,560.

#### **8.2 Fraud and Irregularity**

##### ***Internal Audit Investigations***

In August 2010, the Borough Treasurer was notified by the Department for Works and Pensions (DWP) of a case of a breach of the Memorandum of Understanding with the DWP by one member of staff accessing their own records. The situation was investigated by Internal Audit. The individual concerned resigned during the investigation and before any disciplinary action could be considered. The DWP was

satisfied with the way that the Council dealt with this matter and is taking no further action. However, a number of actions were agreed with the Benefits team to tighten controls.

In March 2011, concerns were raised with Internal Audit about the release of information which could potentially have indicated collusion during a procurement process at one of the Local Authority's schools. This matter was investigated at the school where it was confirmed that whilst information had been inappropriately released, this was due to a lack of understanding of the need to ensure confidentiality of information during any procurement. There was no evidence to suggest that the individual concerned acted in any way to gain personal benefit for herself or anyone else connected to her. In addition, investigation was carried out into the supplier bidding for the works which provided assurance that there were no concerns with the integrity of the competition in this case. Whilst the investigation confirmed that no collusion had taken place, a number of actions were identified to reduce the risk of collusive tendering and raise awareness of the need to act appropriately to ensure fair competition is secured during procurements.

In addition the following potential irregularities were reported to Internal Audit during the year: -

DATE	POTENTIAL IRREGULARITY	CONCLUSION
April 2010	Safe broken into and petty cash totalling £193.06 stolen.	Advice on controls offered.
May 2010	Claimant concerned that monies due under her claim had been diverted.	No benefit payments had been made in respect of this claim during the period.
July 2010	Member of the public claimed £30 paid into one of the handi-tills had not been credited against her account.	No evidence of the amount being received. Controls over deposits into handi-till were found to be robust.
November 2010	Excessive dry cleaning claims by one officer.	Advice given to HR for disciplinary investigation that concluded no irregularity had arisen.
November 2010	One-off payment made directly to an individual instead of the charity for which he worked.	Internal Audit provided advice to HR on matters to be considered in investigating this case and ensuring controls were properly complied with for the future.
January 2011	An unauthorised party was held where food and alcohol were provided free of charge for Council staff and building contractors.	Advice given to HR for disciplinary investigation which concluded that the unauthorised party did take place. Disciplinary action was subsequently taken against the manager concerned.
March 2011	Whistle blowing allegation at London borough of potential identity fraud based on the fact that employees at our two councils had the same name and worked in the same field.	Investigations confirmed that these allegations were unfounded.

### ***Benefits Investigation and Compliance Team***

In addition to the work undertaken by Internal Audit on fraud and irregularities, there is a Benefits Investigation and Compliance Team. The Investigation and Compliance Team is located within the Benefits section of Housing in Environment Culture and Communities. It is therefore outside of the management of the Internal Audit Team. The

Investigation and Compliance Team consists of a Senior Investigations Officer, one Investigation Officer and a Compliance Officer and is responsible for the investigation of potentially fraudulent claims for benefits. During the investigation of claims, Officers interview witnesses, take statements, carry out surveillance and interview under caution with a view to taking prosecution action. The Compliance Officer undertakes proactive visits to claimants to verify their details and confirm continuing entitlement to benefits.

During 2010/11, the Team received 713 fraud referrals, undertook 189 full investigations and carried out 80 interviews under caution. Overpayments identified and investigated totalled approximately £190k. During the year, 564 compliance visits were undertaken of which 85 resulted in a referral for further investigation for unreported changes in circumstances.

As a result of work undertaken by the Investigation and Compliance Team, the 59 sanctions applied during 2010/11, were 28 Formal Cautions, 14 Administration Penalties (a 30% penalty on top of overpaid benefit) and 17 successful prosecutions. One further prosecution was successful but was overturned on appeal. The 59 sanctions applied arose from the following sources:

- 21 from proactive visits;
- 24 matches from the housing benefit matching service;
- 9 referrals from the Benefits Team;
- 4 from joint working with Job Centre Plus; and
- 1 from the Council Tax department.

These can be categorised as follows:

- 20 were income related e.g. where the claimant had not disclosed an increase in income;
- 14 arose because the claimant had failed to notify the benefits Department that they had ceased to be entitled to Job Seekers Allowance;
- 11 was unreported working whilst claiming benefit;
- 11 were unreported changes or failure to report awards of tax credits;
- 1 was unreported non dependent income;
- 1 was failure to report a resident partner; and
- 1 was undisclosed capital.



### **8.3 Other Internal Audit Investigations**

In July 2010, the S151 Officer requested that Internal Audit carry out a review to clarify the procedures in place over the payment, recording and recovery of deposits relating to Housing Options and over the collection and recording of rents directly payable to the Council for housing accommodation.

The review established that the service level agreement with Bracknell Forest Homes to maintain records on deposits and rents for the small number of properties maintained by the Council ceased with effect from 1 February 2010. The financial functions of the Council's ABRITAS housing Options IT system were from this point used for recording debts, cash receipts and direct debits relating to these deposits and rents.

Transferring data to the new system was a labour intensive exercise. Whilst details of properties, rents and arrears payable to the Council for temporary accommodation had been fully and accurately put on to ABRITAS, at the time of the initial audit fieldwork in July, only 2 out of the 594 deposit loans had been fully input on ABRITAS. *The Chief Officer: Housing has advised that all data transferred from Bracknell Forest Homes has now been entered on to ABRITAS.*

At the time of the audit, limited action was being taken on debt recovery. One of the key reasons for this appears to be the lack of resource to obtain all the necessary information to enable debts to be chased. *The Chief Officer: Housing has advised that following the Audit, the work on consolidating and validating all information on debts has now been completed. This information is now contained in the one system and places the Council in the strongest position it has ever been to manage current and historical debt. There is dedicated staff resource to chase current rent arrears debts and deposit and rent in advance loan debts. Now that the historical information has been reconciled it is possible to write off old debts. Even so, debts that are written off will still be passed to the debt collection agency as in some cases it has been possible for that agency to recover old debt.*

A list of actions was agreed with the Chief Officer: Housing to address the weaknesses identified. Internal Audit will be undertaking a follow up audit in quarter 2 of 2011/12 to ensure that these actions have been fully implemented.

## **9. RISK MANAGEMENT**

The Strategic Risk Register has been updated quarterly since January 2008. However, a full refresh of the Register had not take place since early 2008 and hence an exercise was undertaken at the Senior Managers Away Day in March 2010 to identify the key risks facing the Council from first principles. The Register was re-formulated and the format changed to provide greater transparency on actions. The revised Register is based on a new numeric scoring basis for risks. Monitoring of progress on actions to address risks are now summarised in the Corporate Performance Overview Report. The Risk Management Strategy is updated each year and approved by the Governance and Audit Committee. The Risk Management Toolkit which provides guidance for managers was revised in November to reflect the changes made to risk management procedures.

During 2010/11, significant improvements were made to the management of operational risks through the development of directorate risk registers which replaced the risk factors in Service Plan and which provide a more comprehensive breakdown of key risks.

## **10. CORPORATE GOVERNANCE**

In March 2008, Governance Working Group was established to oversee governance arrangements. The Borough Solicitor chairs the Governance Working Group and membership includes the Borough Treasurer and Head of Audit and Risk Management as well as representatives from the service directorates. During 2010/11, the Group oversaw

- the drafting of the Annual Governance Statement for 2010/11 which was subsequently reviewed by the Corporate Management Team
- the development of action plans to address governance weaknesses identified by the review of effectiveness of governance arrangements; and
- met regularly to monitor progress on the actions plans.

During 2010, CIPFA published its statement on the role of the Chief Financial Officer (CFO) in local government which identifies sets out 5 key principles that define the core activities and behaviours for the role of CFO. An assessment of compliance with these principles have been carried out which has confirmed that these 5 key principles have been met.

## **11. EXTERNAL INSPECTIONS**

### **11.1 Consideration of the Outcome of External Inspections**

The Head of Audit and Risk Management considers the outcome of the external auditors' inspections and assessments to inform the development and ongoing review of the Internal Audit Plan for the current and future years and assess if there are any issues relating to the control environment which need to be taken into account in drawing up the annual Head of Internal Audit Opinion. The findings of the various external auditors' inspections and assessments considered when finalising the Head of Internal Audit Opinion for 2010/11 are as follows:

### **11.2 External Auditors' Annual Audit Letter 2009/10**

The Annual Audit Letter 2009/10 was presented to the Governance and Audit Committee by Phil Sharman from the Audit Commission on 25 January 2011.

The Letter identified several areas of Value for Money and Use of Resources where there was found to be scope for improvement. These were in brief to: -

- continue to address the impact of Government spending reviews in the Council's medium term financial strategy;
- place more emphasis on strategic policy changes and longer-run savings programmes to shift the balance away from an annual round of targets to balance the revenue budget;
- continue to improve procurement practice and address the internal procedural weaknesses identified;
- keep up the momentum on improving data quality;

- maintain the focus on developing the Council's governance framework by assessing how well codes and policies are complied with and understood for business critical areas;
- self-assess the functioning of the Governance and Audit Committee against the CIPFA statement;
- strengthen risk management within departments to cover risks for ongoing business;
- continue to consider the long term implications of the Council's maintenance backlog against other spending priorities;
- align workforce plans with the financial strategy and policy changes spanning a longer term horizon; and
- improve statutory equality plans to make them more SMART so that outcomes can be easily measured.

### **11.3 External Auditors' Annual Governance Report 2009/10**

The Code of Audit Practice requires the Council's External Auditors to report on the work they carried out to discharge their statutory responsibilities to those charged with governance prior to the publication of the financial statements. This report was presented to the Governance and Audit Committee on 21 September 2010 by Phil Sharman from the Audit Commission.

The Audit Commission's work on the financial statements resulted in them concluding that the statements were free from material error and issuing an unqualified audit opinion for the year ended 31 March 2010. They concluded that there was an adequate internal control environment and that they were satisfied that, in all significant respects, the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. They also concluded that the Annual Governance Statement was not misleading or inconsistent with other information they were aware of from their audit of the financial statements.

### **11.4 External Auditors' Certification of Claims and Returns Annual Report 2009/10**

This report summarised the findings from the external auditors' certification of 2009/10 grant claims and included the key messages arising from the external auditors' assessment of the Council's arrangements for preparing claims and returns and information on the Housing Benefit and Council Tax Subsidy claim. The external auditors' were able to certify most claims without amendment or qualification but found a significant level of errors on the Housing benefit and Council Tax Subsidy Claim and the claim was subsequently amended and qualified.

An action plan including 9 recommendations for improvement was agreed with officers and this is currently being implemented. Internal Audit will review progress on actions at the end of the first quarter of 2011/12 and will also carrying out unannounced spot checks in the first and second quarters to ensure that necessary improvements have been made to the control environment.

### **11.5 Benefits Service Inspection**

The Audit Commission's inspection report was finalised in September 2010. The overall conclusion was that the Council's benefit service be rated as one star meaning that it is fair with promising prospects for improvement. The Commission concluded that the service responds well to local need, access to the service is fair, that appropriate steps

are taken to ensure that money paid out is based on accurate assessments, that the service is low cost and capacity is good. The Commission found that decisions on new claims or changes take too long and that overpayments were not managed well. The Commission concluded that the prospects for improvement are promising because senior managers manage planning and performance effectively. Three recommendations were raised around providing a better service to customers, improving value for money and continuing with plans for improvements. Progress on actions to address these recommendations will be reviewed by Internal Audit at the end of quarter 1 of 2011/12.

## GOVERNANCE AND AUDIT COMMITTEE 28 JUNE 2010

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### ANNUAL GOVERNANCE STATEMENT Director of Corporate Services – Legal

#### **1 PURPOSE OF DECISION**

- 1.1 To approve the Annual Governance Statement (AGS) 2010/11 and the Action Plan 2011/12 to address weaknesses identified in the AGS.

#### **2 RECOMMENDATION(S)**

- 2.1 That the draft Annual Governance Statement shown as Appendix 1 to this report be approved.
- 2.2 That the Action Plan shown as Appendix 2 to this report be approved.

#### **3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

##### Borough Solicitor

- 3.1 The Borough Solicitor is the author of this report.

##### Borough Treasurer

- 3.2 There are no financial implications directly arising.

##### Equalities Impact Assessment

- 3.3 Not applicable.

##### Strategic Risk Management Issues

- 3.4 Risk management is a key part of good governance. Progress made on risk management during 2010/11 is included at paragraphs 3.4.7 - 3.4.12 and 4.1-4.4 of the AGS in Appendix 1.

#### **4 SUPPORTING INFORMATION**

- 4.1 The CIPFA/SOLACE publication “Delivering Good Governance in Local Government: Framework” identifies six core principles of good governance and recommends that authorities produce an Annual Governance Statement (AGS) to report publicly on the extent to which the Authority complies with its own Local Code of Governance including how it has monitored the effectiveness of its governance arrangements in the year and any planned changes in the coming period.
- 4.2 In England, the preparation and publication of an AGS is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006. This requires authorities to prepare a statement in accordance with “proper practices” and the guidance in the Framework

recommending an AGS constitutes “proper practice”. The AGS is signed by the Chief Executive and the Leader of the Council.

- 4.3 The AGS for 2009/10 identified a number of areas for improvement, in particular the absence of an Audit Committee, improvements required to risk management arrangements, weaknesses in compliance with procurement regulations and the need to review governance arrangements for our themed partnerships. An Action Plans to address these issues was put in place and has been monitored by the Governance Working Group on a regular basis. Considerable progress has been made during 2010/11 on implementing those actions.
- 4.4 The draft AGS for 2010/11 on the effectiveness of the Council’s governance arrangements was reviewed by the officer Governance Working Group on 9 May 2011. In accordance with the resolution of the Committee at its meeting in March 2011 Councillor Thompson was invited and attended the Working Group for the item on the AGS. The AGS has been amended to include comments made by the Working Group. The primary source of assurance for the AGS, as advised in CIPFA’s Rough Guide on the AGS, is the assurance statements completed by
- the Assistant Chief Executive and each Director on compliance with internal controls and governance arrangements across their departments;
  - the Monitoring Officer in respect of legal and regulatory functions;
  - the Chief Officer: Financial Services in respect of financial controls; and
  - the Borough Treasurer in respect of risk management.
- 4.5 The draft AGS attached at Appendix 1 is based on the declarations in the assurance statements and matters identified by the Working Group. The issues referred to in paragraph 5 are those weaknesses highlighted in the assurance statements. In addition, in drafting the AGS, progress on actions to address significant issues included in the 2009/10 AGS has been taken into account and these issues have been included again in the 2011/12 Action Plan where those actions are still ongoing.
- 4.6 A draft Action Plan has been drawn up to address the issues highlighted in the 2010/11 AGS and this is attached at Appendix 2.

Contact for further information

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Doc. Ref G:\Winword\N.Thurloway\Governance\Annual Governance Statement

**BRACKNELL FOREST BOROUGH COUNCIL**  
**ANNUAL GOVERNANCE STATEMENT 2010/11**

**1 Scope of Responsibilities**

- 1.1 Bracknell Forest Borough Council (“The Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3 The Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* published in 2007. [A copy of this code is on our website at <http://www.bracknell-forest.gov.uk/local-code-of-governance.pdf>.] This Statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

**2 The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled. It underpins its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of the strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can only provide reasonable assurance rather than absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Bracknell Forest Borough Council for the year ended 31 March 2011 and up to the date of approval of the Annual Report and statement of accounts.

### **3 The Governance Framework**

The CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* published in 2007 identified 6 principles of good governance. These are set out below and followed by details of how the Council meets the principle.

#### **3.1 Principle 1**

***“Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area”***

##### **Strategic Direction**

- 3.1.1 The Council's identified strategic direction is set out in its Vision. "To make Bracknell Forest a place where all people can thrive; living, learning and working in a clean, safe and healthy environment." This vision provides the focus for identifying key priorities and the medium term objectives.
- 3.1.2 The Council's overarching key priorities and Medium Term objectives are identified after each election and reviewed yearly by the Executive and approved by full Council to ensure they remain focused and relevant.
- 3.1.3 In 2010/11, the Council's six overarching key priorities which enable it to address both national and local priorities over the period 2009-2011 were confirmed (for a six month period pending review by the new Council following May 2011 elections):
- A town centre fit for the 21st century
  - Protecting and enhancing our environment
  - Promoting health and achievement:
  - Create a Borough where people are, and feel, safe:
  - Value for money
  - Sustain economic prosperity
- 3.1.4 These key priorities are underpinned by 13 medium term objectives and supported by 82 actions to be delivered over the period.
- 3.1.5 The Council's Vision, priorities and medium term objectives were developed after extensive consultation with the community, residents, employees, strategic partners and local businesses. They are consistent with their needs and aspirations. They also reflect the Council's aim of maintaining effective service delivery as well as ensuring the achievement of statutory requirements and national targets.
- 3.1.6 The Vision, priorities and medium term objectives are communicated through the Council's public website and intranet and Chief Executive briefings to staff. In addition, the medium term objectives feed into the staff appraisal process.

##### **Performance Management**

- 3.1.7 The Council has a robust and transparent performance management process in place.



- 3.1.8 The quarterly Performance Monitoring Reports are reviewed by the Executive Members, Chief Executive and the Corporate Management Team. The quarterly Corporate Performance Overview Report is considered by the Executive. The quarterly reports for Corporate Services and the Chief Executive's Office together with the quarterly Corporate Performance Overview Report are then taken to the Overview and Scrutiny Commission. Quarterly Performance Management Reports for the other directorates are reviewed by the relevant Overview and Scrutiny Panel for their area. All these reports are available on the Council's website and intranet.
- 3.1.9 The Overview and Scrutiny Panels are:
- the Environment, Culture and Communities Panel
  - the Adult Social Care Panel
  - the Children's Young People and Learning Panel
  - Health Overview and Scrutiny Panel
- 3.1.10 The Commission and the Panels focus on specific service areas. They consider the quarterly performance management reports for their relevant directorates and any external inspection reports. The work programme of both the Overview and Scrutiny Commission and Panels is agreed by the Commission at the start of each municipal year but is flexible allowing for further reviews as the need arises. The Overview and Scrutiny Commission has the role of the Council's Crime and Disorder Overview and Scrutiny Committee.
- 3.1.11 In January 2011 the Governance and Audit Committee approved amendments to update the Council's Local Code of Governance which was originally adopted in January 2009. Its implementation demonstrates good outcomes for the community and service users, through good risk management, performance, financial and internal control processes.
- 3.1.12 The Annual Report reviews performance against targets set against each medium term objective as well as reporting how well the organisation has performed against National Indicators for Local Authorities. It also summarises the Council's plans for the following year which are subsequently reflected in departmental service plans. The Annual Report is published at the end of October each year and is also available on the website.
- 3.1.13 Through the Council's performance reporting process the Council measures the quality of services for users, ensuring they are delivered in accordance with our objectives and represent the best use of resources.
- 3.1.14 Performance reports setting out progress against the joint targets agreed by the Partnership is reviewed by the Bracknell Forest Partnership Board on a quarterly basis. During 2010/11 these reports were also reviewed by the Council's Partnership Overview and Scrutiny Group.
- 3.1.15 The Governance and Audit Committee are made aware of the outcome of internal audit reports through detailed progress reports submitted twice a year by the Head of Internal Audit and Risk Management. In addition, the Head of Audit and Risk Management informs the Governance and Audit Committee of any audits where a limited or no assurance conclusion has been determined since the date of the previous meeting.

### 3.2 Principle 2

**“Members and officers working together to achieve a common purpose with clearly defined functions and roles”**

- 3.2.1 As set out in 3.1, the Council clearly identifies a core purpose. The Council ensures effective leadership throughout the Authority. On an annual basis, Councillors appoint a Leader of the Council with power to appoint Executive Members and designate responsibilities for Executive Members.
- 3.2.2 The roles and responsibilities of the Executive, the full Council and its committees and sub-committees along with Overview and Scrutiny arrangements, the role and functions of Champions and officer functions (set out in the Scheme of Delegation) are defined and can be found in the Council's Constitution. The Council's Constitution is regularly reviewed and updated with substantive changes highlighted to all staff and members. The Constitution is available on the public website.
- 3.2.3 The Member/officer protocol establishes a clear framework for Member/officer relations and the Leader/Chief Executive Protocol supports the already effective working relationship between the Leader and the Chief Executive.
- 3.2.4 The Monitoring Officer advises the Governance and Audit Committee on the development of proposals to update the Council's Constitution, its Executive Arrangements and Procedure Rules to ensure that they are fit for purpose and the Committee subsequently makes recommendations on those matters to full Council.
- 3.2.5 Arrangements between officers and members are regularly reviewed to ensure they are clear and effective. During 2010/11 full Council agreed, on the recommendation of the Governance and Audit Committee that the provisions in the Council's Constitution relating to powers exercisable by officers in relation to property management were reviewed and amended.

### 3.3 Principle 3

**“The Council will promote values for the authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour”**

- 3.3.1 The Council has identified and published on its public website its core values setting out the manner in which it will behave whilst delivering its Vision, priorities and medium term objectives. In serving residents the Council is committed to being:
- friendly and approachable
  - accountable
  - efficient
  - fair

- innovative and forward thinking

3.3.2 Members, officers and partners are expected to maintain high standards of behaviour .These are set out in:

- The Council's Constitution which includes the Code of Conduct for Members, Code of Conduct for Employees, Member and Officer Protocols, Contract Standing Orders and Financial Regulations.
- Fraud and Corruption Policy
- Employee Handbook
- Regular performance appraisals of our partners
- Service standards that define the behavior of officers

These are communicated to all staff and available on the Intranet and website.

3.3.3 A new Code of Conduct for Employees was issued during 2010/11 in order to (among other things) clarify further the position in relation to hospitality and to require senior officers to declare outside work commitments and personal interests. Further the Policy and Guidance in relation to hospitality was amended accordingly.

3.3.4 A Planning Protocol provides specific guidance for Members in relation to planning applications and Guidance for Members serving on external bodies was approved by the Standards Committee in 2010. These will be subject to regular review by the Standards Committee.

3.3.5 During 2010/11 it was reported to the Governance and Audit committee that good progress has been made towards implementation of the International Financial Reporting Standards in accordance with the Council's timetable.

3.3.6 During 2010/11 the Council approved a Counter Fraud Strategy and Anti-Money Laundering Policy and raised awareness of these and Counter Fraud arrangements.

### **Standards Committee**

3.3.7 The Council's Standards Committee has responsibility for:

- Promoting and maintaining high standards of conduct by Members and co-opted Members.
- Advising the Council on the adoption and revision of its Codes of Conduct and the adoption of appropriate protocols governing the ethical standards of the Members and officers of the Council.
- Monitoring the operation of the Council's Codes of Conduct including advice and Members and co-opted Members on matters relating to their Codes of Conduct.
- Considering and determining any allegation that a Member has been in breach of the Code of Conduct for Members or failed to observe a locally adopted protocol.

3.3.8 In 2010/11 the Standards Committee considered two complaints made in the preceding year which went to a hearing. In each case the Member was found to have been in breach of the Members Code of Conduct by not treating the complainants with respect. However, the allegations of bullying and bringing the Council into disrepute were rejected. The Standards Committee received one complaint which was referred for investigation. The investigating officer's recommendation of no breach was accepted.

3.3.9 The workings of the Committee are reported in its Annual Report to full Council.

## **Whistle Blowing Policy and Complaints Procedure**

- 3.3.10 The Whistle Blowing Policy sets out the procedures to be followed when receiving and investigating allegations made by employees, agency staff and contractors. The processes for receiving and investigating other allegations (other than those alleging a breach of the Code of Conduct for Members in respect of which there are separate procedures under the Local Government Act 2000) are covered by the Corporate Complaints Procedure or dealt with under the Disciplinary Procedure. Complaints may be submitted electronically or on a standard form. The Council provides leaflets on the Corporate Complaints Procedure and the Complaints Section on the Council's website clearly sets out whom to contact with complaints and also explains the informal and formal stages of the complaints process and how these can be pursued should the claimant not be satisfied with the response provided. In addition, where required by legislation there are complaints procedures for specific service areas in Social Care and Education.
- 3.3.11 During 2010/11 the Council took steps to raise the profile of the Whistleblowing Policy; this included the subject being incorporated into the corporate message which is cascaded to all staff.
- 3.3.12 For employees within the Council the Grievance Procedure is available for a grievance relating to their own employment.

## **Information Management and Governance**

- 3.3.13 Information Management Group consists of officers and ensures that the Council has in place a co-ordinated and coherent framework for management of information which includes appropriate accountability arrangements for information governance. During 2010/11 the Council identified the Director of Corporate Services as the Information Governance Lead and the Borough Solicitor as Senior Information Risk Officer.
- 3.3.14 The Group's terms of reference were amended to provide for the Information Governance Lead to be Chair and expanded to include consideration of the Annual Information Governance Assessment. .
- 3.3.15 The Council has also worked on creating a central repository for staff and members to access policies and guidance relevant to information management. The "Information Management Hub" went live in April 2010.
- 3.3.16 During 2010/11 the Council approved and implemented an Information Management Strategy and Information Security Policy. In addition, it has continued to implement its Data Quality Strategy

## **Assurance on compliance**

- 3.3.17 Assurance on compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful is sought through internal audit reviews and the work of external audit.
- 3.3.18 The Governance and Audit Committee provides oversight of governance arrangements and acts in the capacity of a committee with delegated authority for the function of "Those Charged with Governance" as required for the purposes of

receiving external auditor's reports in accordance with the definition in International Standards on Auditing.

- 3.3.19 The Governance and Audit Committee considers the reports from internal and external auditors, monitors the adequacy of procedures and processes in place to manage risk and governance (includes Anti-Fraud and Corruption Policy) and approves the financial statements, internal and external audit plans and the Annual Governance Statement.
- 3.3.20 During 2010/11 the Governance and Audit Committee received updates on the performance against the 2010/11 Internal Audit Plan together with a summary of assurances provided by individual audit reports and approved the 2011/12 Internal Audit Plan. It also considered the Annual Audit and Inspection Letter from the External Auditors.
- 3.3.21 The Audit of Housing and Council Tax Benefit Subsidy 2009/10 identified issues requiring a management response. The Governance and Audit Committee were appraised of the findings and proposed an action plan in response to this and the internal audit of the housing benefit service. It will continue to monitor the progress of the actions arising. This illustrates the Council's continual commitment to upholding high standards of conduct and governance.
- 3.3.22 Major external inspections which assess performance in specific services are considered by the relevant Overview and Scrutiny Panels and by external inspections.

#### **3.4 Principle 4**

***"The Council will take informed and transparent decisions which are subject to effective scrutiny and risk management"***

##### **Member decisions**

- 3.4.1 The Leader and the Executive (including committees of the Executive and individual Executive Members) are responsible for all Executive decision-making within the policy and budgetary framework established by full Council. The Leader allocates portfolios to each of the Executive Members. Portfolio holders have executive powers to make decisions on matters within their portfolio.
- 3.4.2 The Council has appointed a number of committees to exercise its regulatory functions and other functions which are not exercisable by the Executive.
- Appeals Committee
  - Education Employment Sub Committee
  - Employment Committee
  - Governance and Audit Committee
  - Licensing and Safety Committee
  - Licensing Panels
  - Planning and Highways Committee

- 3.4.3 The procedures for decision making set out in the Council's Constitution ensure that decisions made by collective groups exercising powers of the Council are made at meetings open to the public unless under statutory provisions it is appropriate for the public to be excluded (see paragraph 3.4.16 – 3.4.18 for further details about decision making in Partnerships). There is a requirement to declare interests at these meetings and these declarations are clearly recorded in the minutes. Members are also required to complete an annual declaration of Related Party Transactions.
- 3.4.4 The Constitution sets out those occasions which require formal decision and when written reports supporting decisions are required. Written reports requiring decision contain the following:
- financial advice from the Borough Treasurer
  - legal advice from the Borough Solicitor to ensure that the decision is not unlawful and employs the Council's legal powers to full effect
  - a strategic risk assessment
  - an equalities impact assessment.
- 3.4.5 The Council has appointed committees comprised of non-Executive Members to review or scrutinise both Executive and non-Executive decisions. Such committees encourage effective challenge to the decision making process. The Committee with overarching responsibility for those matters is the Overview and Scrutiny Commission (see paragraph 3.1.8 – 3.1.10 for further details).
- 3.4.6 In addition, during 2010/11 the Council was also a constituent authority (along with Slough Borough Council and the Royal Borough of Windsor and Maidenhead) of the Joint East Berkshire Health Overview and Scrutiny Committee which discharges the functions of the participating authorities under the National Health Service Act 2006.

## **Risk Management**

- 3.4.7 Decisions made by the Council are subject to risk assessments which are made in accordance with the organisation's risk management processes.
- 3.4.8 The Risk Management Strategy was updated during 2010/11 and was subsequently approved by the Governance and Audit Committee in September 2010. The Risk Management Toolkit provides Members and officers with guidance on identifying, evaluating and mitigating risk in accordance with the Council's Risk Management Strategy. This was revised during 2010/11.
- 3.4.9 The Strategic Risk Management Group chaired by the Borough Treasurer meets quarterly and oversees all aspects of risk management at the Council including health and safety and business continuity.
- 3.4.10 The Strategic Risk Register has been updated via the Strategic Risk Management Group and is approved by the Corporate Management Team on a quarterly basis and by the Executive on a six monthly basis to ensure that it is a complete and up to date record of the Council's current risks. A fundamental refresh of risks in the Strategic Risk Register was undertaken during the first half of the year and changes were made to the risk scoring methodology and to improve the format of the Register. Actions to address strategic risks are monitored quarterly and progress on actions is summarised in the Corporate Performance Overview Report.

- 3.4.11 Improvements have been made to risk management arrangements at operational level through the development of directorate risk registers which replace the risk factors for planned outcomes in Service Plans. Directorate risks and mitigating actions are reviewed quarterly.
- 3.4.12 Members are engaged in the risk management process through the Executive's review of the Strategic Risk Register, Member review of the Corporate Performance Overview Report and regular reports to the Governance and Audit Committee on progress in developing risk management.

### **Officer Decisions**

- 3.4.13 The Council has an up-to-date Scheme of Delegation. In addition to this there is a written scheme of internal delegation within each department which is reviewed each year.
- 3.4.14 Appropriate officers are required to declare hospitality received and personal interests in accordance with the Employee Code of Conduct.

### **Partnerships**

- 3.4.15 The Council's Partnership Governance Framework and Toolkit ensures that sound governance arrangements are in place for its key partnerships. It also provides guidance on accountability, decision making and risk management. A strategic risk register and associated action plans were developed for the Local Strategic Partnership and during 2010/11 the Council implemented its action plans to mitigate the key risks.
- 3.4.16 The Bracknell Forest Partnership Group quarterly meetings are open to the public and the minutes and agendas of the monthly Partnership Board are publicly available. A number of the Theme Partnerships meetings within Bracknell Forest Partnership include personal or other sensitive information, and as a consequence it is not appropriate to make the full agendas and minutes publicly available. However, for those Theme Partnerships where it is appropriate, the Council proposes to pilot making more information available via the Council and BFP websites.
- 3.4.17 During 2010/11 the Partnership Overview & Scrutiny Group which consists of representatives from the Council, Bracknell Forest Voluntary Action, NHS Berkshire East, Royal Berkshire Fire and Rescue Service and Thames Valley Police Authority scrutinised Partnership arrangements.

### **Transparency**

- 3.4.18 All Council decisions are taken in an open manner, unless there are sound reasons for doing so as permitted by legislation. The Council has a clear process in place for responding to Freedom of Information Act requests and also publishes information on the website.
- 3.4.19 Further to the Secretary of State for Communities and Local Government's Transparency Agenda, during 2010/11 the Council published senior salaries, spend over £500 and contracts and tenders.

## **Equalities**

- 3.4.20 During 2010/11 the Council successfully met the Achieving Level of the Equality Framework which helps local authorities improve their performance on equality and diversity. IDeA peer reviewers praised the council's excellent work in meeting the needs of specific communities, including people with disabilities and the Nepali community, its efforts to build community cohesion and its strong culture of partnership working and engagement with the community and voluntary sector.
- 3.4.21 The Council also delivered an equality and diversity training programme to its managers and elected members; as well as making improvements to equality monitoring.

## **3.5 Principle 5**

### **"Developing the capacity and capability of members and officers to be effective"**

- 3.5.1 The Council has a comprehensive induction and training process in place for both Members and officers joining the Council. During 2010/11 all new officers received personalised inductions. In addition, both Members and officers attend external training courses where training needs cannot be met internally.

## **Members**

- 3.5.2 Personal Development Plans are offered to Members. Members are encouraged to take advantage of this and during 2010/11 the Council reached its target of 70% of Members having undertaken development needs analysis sessions which have informed both individual plans and the member training programme for all Councillors.
- 3.5.3 The Council has a Members Development Programme which takes the form of internal training workshops and Member briefing seminars on specific topics. It has been awarded the Charter Plus Standard for Member Development. The charter provides a robust framework which ensures members are supported during their time on the council. Member development is now an embedded part of the council's culture.

## **Officers**

- 3.5.4 A broad internal training programme of courses is run each year for officers as well as specific professional training and this is supplemented by regular lunchtime manager training sessions.
- 3.5.5 Compliance with Continuing Professional Development requirements is monitored by individual officers; the Council provides sufficient resources to fund this. As part of the performance appraisal process, each officer is required to complete their own Personal Development Plans which form the basis for the Council's internal training course programme.
- 3.5.6 During 2008/09, the Council put in place a Management Assessment and Development Programme and Diversity training for its senior and middle level managers. This is an ongoing programme that will continue throughout 2011/12. During 2009/10 the Borough Solicitor will provide further training on ethics.



- 3.5.7 During 2010/11 the Borough Solicitor discussed and clarified arrangements with Departments concerning the identification of and advising upon new legislation.
- 3.5.8 The Corporate Services department has Investors in People status.
- 3.5.9 During 2009/10 the Council's arrangements were reviewed against the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

### **3.6 Principle 6**

#### ***“Engaging with local people and other stakeholders to ensure robust public accountability”***

- 3.6.1 The Council works closely with its local partners. It is a key member of the Bracknell Forest Partnership which brings together agencies that deliver public services (the Councils, Police, Fire and Rescue Service, and Primary Care Trust) with businesses and people that represent voluntary organisations and the community. Bracknell Forest Partnership is underpinned by a Governance Protocol and Memorandum of Agreement between the organisations and has a single purpose; to improve quality of life for local people.
- 3.6.2 During the period April 2008 to March 2011, Bracknell Forest Partnership ensured accountability to the public through the development and delivery of its Sustainable Community Strategy and Local Area Agreement. The Strategy set out an overview of the Partnership's agreed priorities and the Agreement, signed with the Government, set out 54 detailed commitments from local providers covering health and well-being, the environment, housing, crime, transport, volunteering and the economy. Progress against the targets in the Local Area Agreement has been reported publically.
- 3.6.3 During 2010/11 the Council undertook a number of planning consultations which sought the views of local people and stakeholders; this included the Site Allocations Development Plan (to identify the Council's preferred approach to dealing with the Borough's development needs up to 2026), Supplementary Planning Documents, the proposed Conservation Area in Binfiled and the future of transport in Bracknell 2011-2026. The Bracknell Forest Partnership priorities event was held in November 2010. It involved representatives from key agencies and businesses in the borough, and identified priority issues to be addressed through the work of the Local Strategic Partnership. A wide range of other service based consultation were also conducted during 2010/11 to gain residents input to shaping services.
- 3.6.4 During 2009/10 the Council approved a proportionate strategy for Community Cohesion for the next three years, 'All of Us', implementation of which continued 2010/11. It details what the Council, its partners and local people need to do, to ensure that community cohesion is strengthened and promoted and to ensure quality for all in Bracknell Forest. This Community Cohesion Strategy provides a framework with which to promote positive relationships and to ensure that we do not disrespect, neglect, or disadvantage any member of our community.
- 3.6.5 There are a number of channels of communication which provide the Council with a means of engaging with residents and other stakeholders on its strategies and policies and providing information to them, this includes;
- The public website
  - Town and Country Newsletter delivered to all households in the Borough

- consultation exercises based on focus groups, user groups or publicised on the website
- Regular surveys of the Bracknell 1500; a citizens panel of 1500 local residents (refreshed during 2009/10 to ensure it reflected local demographic)
- Town and Parish Councillors liaison group which meets four times a year.
- Community television.
- Facebook, Flickr, Twitter, YouTube, Mobile Service and Digital Television.

3.6.6 During 2010/11 the Council, on the recommendation of the Governance and Audit Committee, adopted a Petition Scheme (including an online petition facility) as required by the Local Democracy, Economic Development and Construction Act 2009. It also updated the Council's Scheme for Public Participation at Meetings of the Council which allows members of the public to make a submission by way of a petition.

#### **4 Review of Effectiveness of internal control**

Bracknell Forest Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

During 2010/11, the review of effectiveness of internal control was informed by the following key elements:

##### **Internal Audit**

- 4.1 Internal audit provides an independent and objective opinion to the organisation on the control environment by objectively examining, evaluating and reporting on its adequacy. The Head of Audit and Risk Management also provides an annual opinion to the Governance and Audit Committee to support the Annual Governance Statement.
- 4.2 The Head of Audit and Risk Management develops the annual Internal Audit Plan which is then delivered by an external contractor.
- 4.3 Under the 2010/11 Internal Audit Plan, 77 audits were completed. Internal Audit concluded that they could give limited assurance in only four cases. Where limited assurances have been concluded, the Head of Audit and Risk Management reports the detailed findings to the Governance and Audit Committee and follow-up audits are carried out within the following year to ensure that agreed actions have been implemented. In addition, the Corporate Management Team receive six monthly progress reports.
- 4.4 Based on the work of Internal Audit during the year the Head of Audit and Risk Management has given the following opinion:
- from the internal audit work carried out during the year, which resulted in a significant or satisfactory opinion in 70 out of 74 cases where an opinion was given, the Head of Audit and Risk Management is able to provide reasonable

assurance that for most areas the Authority has sound systems of internal control in place in accordance with proper practices but some areas with significant weaknesses were identified;

- key systems of control are operating satisfactorily except for the areas referred to above; and
- there are adequate arrangements in place for risk management and corporate governance.

### **Standards Committee**

4.5 During 2010/11 the Standards Committee met three times, for further details of its workings see para 3.3.7-3.3.9. Their Annual Report was considered by full Council.

### **The Governance and Audit Committee**

4.6 The Governance and Audit Committee is responsible for reinforcing effective governance, particularly through reviewing the activities of the internal auditors and the Council's risk management arrangements. During 2010/11, the Committee received summary reports on progress on the delivery of the Internal Audit Plan and key outcomes on completed work. The Internal Audit Plan for 2011/12 was approved by the Committee.

### **The Governance Working Group**

4.7 The Corporate Management Team has established a Governance Working Group, chaired by the Borough Solicitor. During 2010/11 the Group met regularly to review progress on actions to address the significant issues included in the Annual Governance Statement for 2009/10 as well as other weaknesses identified by the 2009/10 governance review.

### **The Constitution**

4.8 The Constitution is maintained via continual review throughout the year. The Monitoring Officer advises the Governance and Audit Committee which reports to the full Council.

### **Annual Assurance Statements**

4.9 Assurance Statements assess the adequacy of governance arrangements. Each Director provides assurances about their department along with the Assistant Chief Executive in relation to the Chief Executives department. The Chief Finance Officer provides assurances in relation to financial services, the Borough Treasurer in relation to risk management and the Borough Solicitor in relation to Legal and Regulation.

### **External Audit**

4.10 External Audit provides an opinion on the adequacy of the internal audit service and comments on corporate governance and performance management in their Annual Audit and Inspection Letter and other reports. The Annual Audit and Inspection Letter for 2009/10 was presented to Governance and Audit Committee in January 2011. It did not identify any significant weaknesses in the internal control arrangements and concluded that there was an adequate control environment in place.

We have been advised on the implications of the result of the assessment of the effectiveness of the governance framework by the Governance Working Group and a plan has been put in place to address any governance issues arising from the assessment.

## **5 Significant Governance Issues for consideration in 2011/12**

### **5.1 Procurement**

The Council recognises the importance of procurement in achieving reductions in public spending and the efficient delivery of services. Significant improvements have been made in the last three years to internal arrangements, with progress closely monitored by CMT and members.

In a period of great pressure upon Council resources procurement arrangements should continue to be reviewed in order to provide the optimum structure for effective procurement to secure value for money. This should be done in light of the IESE (Improvement and Efficiency South East) Report

### **5.2 Council Constitution and Local Code of Governance**

During 2011/12 it will be necessary to review the Council's governance arrangements in light of the Localism Bill, once enacted.

### **5.3 Ethics Training for Officers**

During 2010/11 the Council provided a session of ethics training for Officers. Training on this topic should continue during 2011/12.

### **5.4 Business Continuity Plans**

The Council's business continuity processes were developed in [awaiting date]. These arrangements are now due for review to ensure they are still appropriate for ensuring continuity of operations for the Council's current structure and objectives and that they adequately address the business continuity risks identified in the Strategic Risk Register.

## **6 Action Plan**

An action plan has been developed to address governance issues identified.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

7 The Governance and Audit Committee considered and discussed the results of the review of effectiveness of internal control at its meeting on 28 June 2011.

**Signed:**

Leading Member

Chief Executive

on behalf of Bracknell Forest Borough Council

ANNUAL GOVERNANCE STATEMENT 2011-12 ACTION PLAN

Item	Governance Point Raised In Annual Governance Statement	Proposed Action	Owner	Comments/ Implementation Deadline
1	<p><u>Procurement</u></p> <p>The Council recognises the importance of procurement in achieving reductions in public spending and the efficient delivery of services. Significant improvements have been made in the last three years to internal arrangements, with progress closely monitored by CMT and members.</p> <p>In a period of great pressure upon Council resources procurement arrangements should continue to be reviewed in order to provide the optimum structure for effective procurement to secure value for money. This should be done in light of the IESE (Improvement and Efficiency South East) Report</p>	<p>The Council will continue to monitor procurement within the Council closely over the coming year.</p> <p>Review the Council's Contract Standing Orders and Procurement Manual in light of the Localism Bill (once enacted) and the ISIE Report</p>	<p>CMT</p> <p>Assistant Borough Solicitor; Non-contentious team and Borough Treasurer</p>	<p>31/3/2012</p> <p>31/03/2012</p>

Item	Governance Point Raised In Annual Governance Statement	Proposed Action	Owner	Comments/ Implementation Deadline
2	<p><u>Council Constitution and Local Code of Governance</u></p> <p>Amendments to the Local Code of Governance was approved by Council in January 2011. However, the Localism Bill, when enacted will make significant changes to a number of governance topics and the Code should be updated accordingly.</p>	<p>1) Review the Constitution (to include executive arrangements and ethical framework for councillors) and Local Code of Governance in light of the Localism Bill once enacted.</p> <p>2) Implement a strategy for communicating the updated Code to appropriate staff (and Members).</p> <p>2) Review Council's procurement procedures in light of counter fraud considerations; eg review Procurement Manual and Contract Standing Orders.</p>	Borough Solicitor	<p>31/3/2012</p> <p>31/3/2012</p> <p>31/10/2011</p>
3	<p><u>Ethics Training for Officers</u></p> <p>During 2010/11 the Council provided a session of ethics training for Officers. Training on this topic should continue during 2011/12.</p>	Continue delivery of ethics training for officers.	Borough Solicitor	31/3/2012

Item	Governance Point Raised In Annual Governance Statement	Proposed Action	Owner	Comments/ Implementation Deadline
4	<p><u>Business Continuity Plans</u></p> <p>The Council's business continuity processes were developed in xxxx. These arrangements are now due for review to ensure they are still appropriate for ensuring continuity of operations for the Council's current structure and objectives and that they adequately address the business continuity risks identified in the Strategic Risk Register.</p>	<p>1) Complete business impact assessments for critical areas and update directorate plans.</p> <p>2) Update council wide business continuity plan</p>	<p>Directors</p> <p>Emergency Planning Officer</p>	<p>31/12/2011</p> <p>31/3/2012</p>

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**GOVERNANCE AND AUDIT COMMITTEE  
28 JUNE 2011**

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**TOWN CENTRE LAND DISPOSAL  
Director of Corporate Services – Legal**

**1. PURPOSE OF DECISION**

- 1.1 This report proposes amendments to the Council's Constitution in order to:-
- permit the Bracknell Town Centre Regeneration Committee to approve the disposal or acquisition of land required in connection with the re-development of Bracknell Town Centre, and
  - to grant delegated authority to the Chief Officer: Property to authorise land disposals which the Council is contractually committed to make under agreements authorised by the Executive, an Executive Committee or a single Executive Member.

**2 RECOMMENDATION**

**2.1 That the Constitution be amended to provide that:-**

- (a) **the Town Centre Regeneration Committee be delegated authority to approve the acquisition or disposal of all land required in connection with the re-development of Bracknell Town Centre, and**
- (b) **the Chief Officer: Property be delegated authority to authorise all land disposals which the Council is contractually required to make.**

**3 REASONS FOR RECOMMENDATION**

- 3.1 To allow a more expeditious process for securing land disposals or acquisitions required to facilitate Town Centre re-development, without undermining either transparency of decision making or the capacity for such decisions to be "called in" for consideration by the Overview and Scrutiny Commission.
- 3.2 To avoid duplication of decision making.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 To retain the status quo, but that would entail adherence to an unnecessarily bureaucratic process.

**5 SUPPORTING INFORMATION**

- 5.1 Section 5.5 of Part 2 of the Council's Constitution (which sets out the parameters for delegation of Executive functions) requires that the disposal of

land over 0.5 hectares or above £500,000 be authorised at a meeting of the Executive (unless certified to be a matter of overriding urgency by both the Leader and the Chief Executive in which case authorisation may be granted by an Executive Member). Similarly, land acquisitions in excess of £500,000 require the approval of the Executive. A decision to acquire or dispose of land at a value of £400,000 or more is a key decision and requires publication on the Forward Plan, no matter who the decision is to be made by.

5.2 The last meeting of the Committee on 22<sup>nd</sup> March 2011 considered a report proposing an amendment in respect of the authorisation of disposals of land required in connection with Town Centre re-development. The report proposed that the Constitution be amended to provide that land disposals in excess of 0.5 hectares required in connection with Bracknell Town Centre re-development could be approved by the Town Centre Regeneration Committee (“the Regeneration Committee”). At the (Governance and Audit) Committee concern was expressed regarding the transparency and openness of the decision making process and further information on the process of publication of decisions made by the Regeneration Committee was requested.

5.3 The Regeneration Committee is a Committee of the Executive. The terms of reference of the Committee include the following:-

“Formulation of the Council’s property strategy within Bracknell Town Centre including dealings with existing landowners.....”

However, given the current restrictions on delegation of Executive Functions the Committee cannot authorise proposed land disposals in excess of 0.5 hectares – they have to be formally approved by the full Executive. In practice this means that proposed disposals are considered both by the Committee and the Executive, a process which would seem to be quite unnecessarily bureaucratic.

5.4 As a Committee of the Executive the Regeneration Committee is subject to exactly the same rules relating to public rights of access to the meeting and the agenda as the full Executive is subject to. This means that if either at a meeting of the Executive or the Regeneration Committee “exempt information”, as defined by schedule 12A of the Local Governance Act 1972 is likely to be disclosed then the public may be excluded from the meeting and the agenda withheld from public inspection. The principles (and process) are exactly the same as for non-Executive Committees. “Exempt information” includes “information relating to the financial or business affairs of any particular person”. Almost invariably reports to the Regeneration Committee do include such information and therefore the public are excluded from the meeting and reports are not publically available. However, if and when land disposals for Town Centre regeneration do go to the full Executive the same rules apply and the reports are considered in confidential session. Decisions of the Regeneration Committee are published in exactly the same way as decisions of the full Executive.

5.5 Concern was expressed at the last meeting of the Committee as to whether delegating to the Regeneration Committee the power to authorise land disposals would impact upon the ability of Members to “call-in” a decision for consideration by the Overview and Scrutiny Commission prior to its implementation. Again, the rules relating to “call-in” are exactly the same for

a decision by the Regeneration Committee as for the full Executive. In both cases “call-in” may be triggered at the request of the Chairman and any two Members of the Overview and Scrutiny Commission or any five Members of the Council (though there is an exception for urgent decisions).

- 5.6 Given that the rules relating to public access and call-in are exactly the same for the Regeneration Committee as for the whole Executive there would seem to be no logical reason for the Committee not to endorse the recommendation in 2.1(a). The only likely consequence of not accepting that recommendation would be for the public to be denied access to two meetings rather than one.
- 5.7 The Council has entered into a Development Agreement with Bracknell Regeneration Partnership for the re-development of Bracknell Town Centre. That agreement, as amended, provides for the transfer of property from the Council to BRP (e.g. in respect of properties compulsorily acquired). The terms of the Development Agreement have been approved by the Executive and any amendments require the sanction of the Regeneration Committee. If the Council has a contractual obligation (as distinct from merely an option to do so) under an agreement already having Member sanction there would seem to be no point in seeking approval (for what the Council is already required to do). The recommendation in 2.1(b) seeks to address that anomaly.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 The Borough Solicitor is the author of this report.

### Borough Treasurer

- 6.2 There are no financial implications directly arising.

### Equalities Impact Assessments

- 6.3 Not relevant.

### Strategic Risk Management Issues

- 6.4 Not relevant.

## **7 CONSULTATION**

### Principal Groups Consulted

- 7.1 None

### Method of Consultation

- 7.2 Not applicable

### Representations Received

- 7.3 Not applicable

Background Papers

None

Contract For Further Information

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Doc Ref

AJ/f/reports/Governance and Audit Committee 28.6.11 – Town Centre Land Disposal