

A new approach to value for money audit

Local government, housing and community safety

December 2010

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Single tier, county and district councils, fire and rescue authorities and police authorities

From 2010/11 auditors of single tier, county and district councils, fire and rescue authorities and police authorities will give their statutory value for money (VFM) conclusion based on two criteria specified by the Commission, as follows:

Specified criteria for the auditor's VFM conclusion

The organisation has proper arrangements in place for securing financial resilience.

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

What the auditor will consider

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The work to support the VFM conclusion

The auditor will undertake risk-based work focusing on the robustness of the organisation's arrangements relating to financial governance, strategic financial planning and financial control. The auditor's work may be informed by the results of previous audit work, the Commission's guidance for auditors and tools such as the VFM profile tools and the local government financial ratios tool.

The auditor will undertake risk-based work on the robustness of the organisation's arrangements for prioritising resources and improving productivity and efficiency. This may be informed by the results of previous audit work, and the work of other inspectorates or review agencies. Auditors may use a range of tools for this work, on a risk basis, comprising the Commission's VFM profile tools, HM Inspector of Constabulary VFM profiles for police, the local government financial ratios tool, Commission national studies and follow-up briefings, and new local savings review tools.

The Commission has developed new local savings review tools, for use on a risk basis by auditors, based on three previous studies:

- The Efficiency Challenge (the administration costs of revenues and benefits);
- Back to Front (efficiency of back office functions in local government); and
- Rising to the Challenge (improving fire service efficiency).

Source: Audit Commission

Auditors will determine a local programme of VFM audit work based on their audit risk assessments, informed by these criteria and their responsibilities under the Code of Audit Practice (the Code).

Other local government bodies

For 2010/11, there is no change in approach to auditors' work to deliver a VFM conclusion for other local government bodies.

Other local government bodies with turnover above £6.5 million

For 2011/12, larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives and probation trusts, auditors will apply a light touch approach which will result in less work than is currently undertaken.

This will involve:

- reviewing the annual governance statement (AGS) or statement on internal control (SIC);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- other local risk-based work as appropriate, or any work mandated by the Commission.

This light touch approach will also apply at joint committees and other miscellaneous local government bodies.

Other local government bodies with turnover below £6.5 million

For 2011/12, we are removing the requirement for auditors to issue a VFM conclusion at audited bodies with annual income or expenditure below the turnover threshold for small companies audit exemption (currently £6.5 million). In applying this approach the Commission and auditors will be relying on paragraph 4 of the Code, which requires auditors of smaller bodies to apply the Code in so far as, in their judgement, it is appropriate, taking into account the nature of the business of the body and any relevant guidance issued by the Commission.

Summary

The application of the new approach to VFM audit to different types of audited body is summarised in the Table 1 below.

Table 1: **A proportionate approach to the auditor's VFM work**

Type of body	No requirement for VFM work for 2011/12	VFM work based on review of the AGS/SIC for 2011/12	VFM conclusion based on specified criteria for 2010/11
Local government bodies with annual income or expenditure below £6.5million ⁱ	✓		
Probation trusts		✓	
Other bodies with annual income or expenditure above £6.5 million ⁱⁱ		✓	
Single-tier, county councils (including those with fire service responsibilities) and district councils			✓
Fire and rescue authorities			✓
Police authorities			✓

Source: Audit Commission

ⁱ Includes local councils, internal drainage boards, smaller national parks authorities and smaller joint committees.

ⁱⁱ Includes integrated transport authorities, passenger transport executives, larger national parks authorities, larger joint committees, waste disposal authorities and pensions authorities.

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