



*cutting through complexity™*

**Audit Committee Institute**  
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# Audit Committee Institute Local Government Programme

Autumn 2013





# AGENDA

- 1. Welcome and Introduction**
- 2. Hot topics briefing**
- 3. Fraud risk**
- 4. Public Health**
- 5. The Brilliant Authority**
- 6. Drinks**

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**Hot Topics**

**David Phillips**



# Transparency of Financial Reporting – Issues for Audit Committees

# Financial reporting

## The issue

- Elected members are being asked to consider more challenging issues and increasingly to take more difficult decisions. Clear and effective financial monitoring and reporting is the essential element underpinning these decisions.

## Considerations for Audit Committee

- Members often consider the adequacy of the arrangements in place that underpin financial monitoring and reporting but very rarely do they consider the adequacy of the reports themselves – including reports to budget holders as well as members.
- Financial reports form a key part of the assurance process and it would be entirely appropriate for the Audit Committee to consider the effectiveness of that part of the process.
- Specifically do financial reports present financial information in a way that:
  - ✓ Is easy to understand
  - ✓ Links financial and performance information
  - ✓ Demonstrates the impact of decisions on outcomes and service delivery.
- Is financial reporting forward looking or does it focus heavily on historical analysis of variances against budget.



# Learning the lessons from Public Interest Reports – Issues for Audit Committees

# Public Interest Reports

## The issue

- Two high profile public interest reports issued to local authorities in the last 12 months both of which relate to major capital projects/contracts. Both reports are highly critical of fundamental failures in governance arrangements.

## Considerations for Audit Committee

- Are members of the Audit Committee aware of these reports and have the key findings been actively considered or is there a culture of “it couldn’t happen here”.
- Does the Committee receive regular assurances in respect of:
  - ✓ Risk management arrangements
  - ✓ Declarations of interest/hospitality
  - ✓ Complying with procurement rules
  - ✓ Delivering internal audit
  - ✓ Responding to whistle-blowing
  - ✓ Value for money including financial and contract management arrangements.
- What arrangements are in place to prevent management override of key controls?

<http://www.audit-commission.gov.uk/audit-regime/audit-reports/public-interest-reports/>



# Welfare Reforms – Issues for Audit Committees

# Welfare Reforms

## Universal Credit

### The issue

- The Universal credit has merged six benefits – housing benefit, jobseeker’s allowance, income support, child tax credit, working tax credit and employment support allowance – into one monthly payment.

### Considerations for Audit Committee

- Big Government Computer systems don’t always deliver – there has already been adverse comments on implementation by NAO.
- 12 local authority-led schemes trialling universal credit – early lessons.
- The system is designed so it can be managed online by claimants, payments will be made direct to claimants.
- Education of claimants – helping them make the right choices when a large lump is received upfront.
- Bad Debts will rise – has this been anticipated in business plans and what are arrangements to measure housing rent arrears going forward.

# Welfare Reforms (continued)

## Council Tax benefit localisation

### The issue

- Local council tax benefit/support scheme was implemented in April 2013.
- On average 10% reduction in support from central government.
- Increased powers to raise council tax on second homes and empty homes.

### Considerations for Audit Committee

- How is the implementation of new scheme being monitored?
  - Is there an increased backlog?
  - Are you getting increased complaints?
  - Internal Audit findings.
- Impact on the financial position/standing.
  - Have council tax arrears increased? What are the costs of collecting these sometimes small amounts (court costs, officer time).
  - If you were funding some of the support from reserves, is this as anticipated or has there been pressures. Will you be able to continue this into 2014/15 and what service pressures in other areas has this created.
  - Have the additional powers to raise council tax been effective? What are the collection rates? Is it costing more to collect than you are collecting?



**Fraud risk**

**Barry Dean**



# Agenda

1. Introduction and overview
2. Examples of fraud in Local Government
3. Governance and the role of the Audit Committee
4. What can you do to identify, manage and mitigate fraud?

# 1. Introduction and overview

## ■ **Local Government is facing tough times**

- Budget constraints
- Increasing demands from the public, politicians and media
- Shifting business model: commissioning and increased reliance on 3rd parties
- Tolerance for mistakes and wrongdoing at an all-time low

## ■ **Fraud is on the rise**

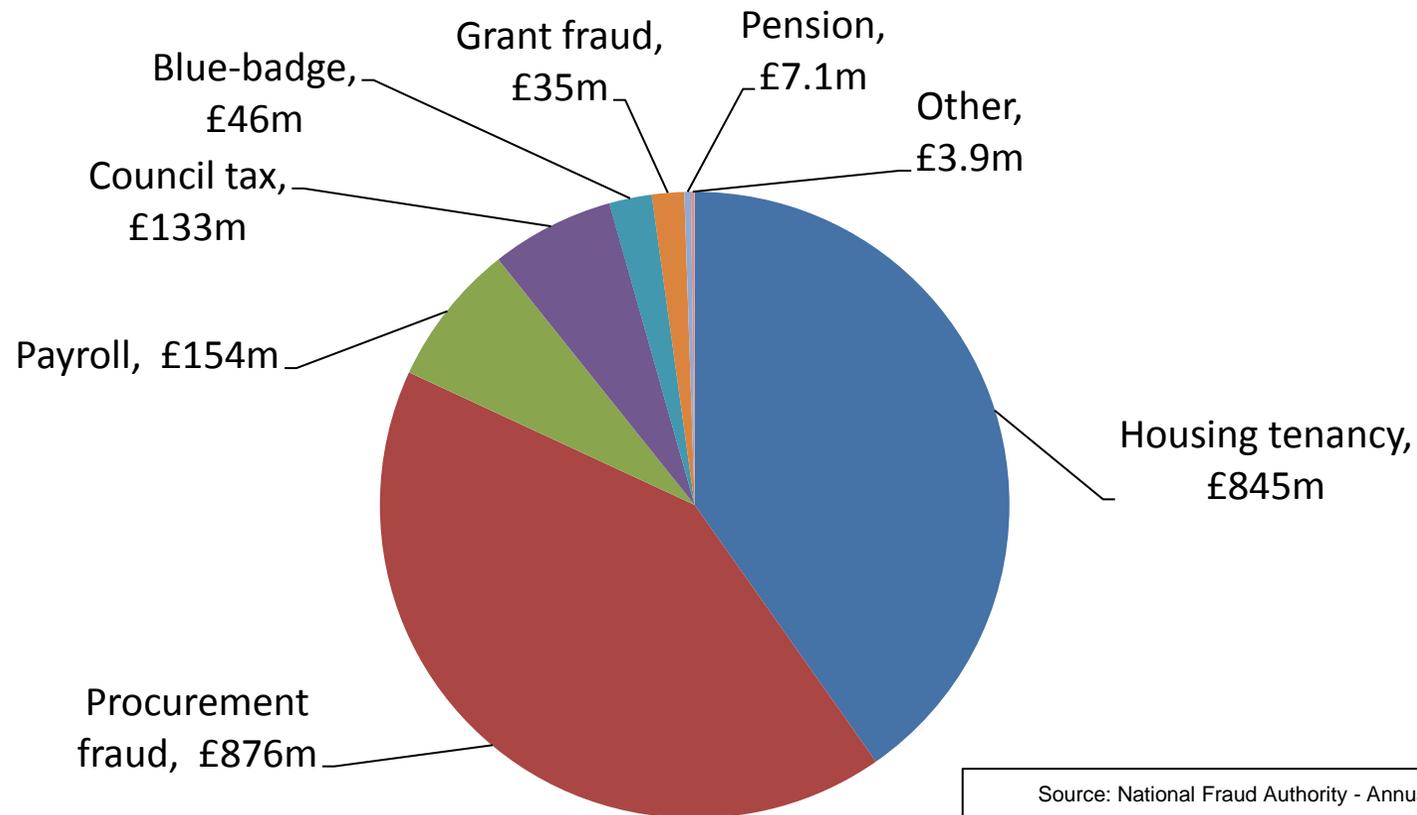
- Tough economic climate leading to increased propensity for individuals to commit fraud
- Frequency and value of fraud continues to increase
- Means by which fraud is perpetrated becoming more sophisticated

## ■ **Local Government faces unique challenges in relation to fraud**

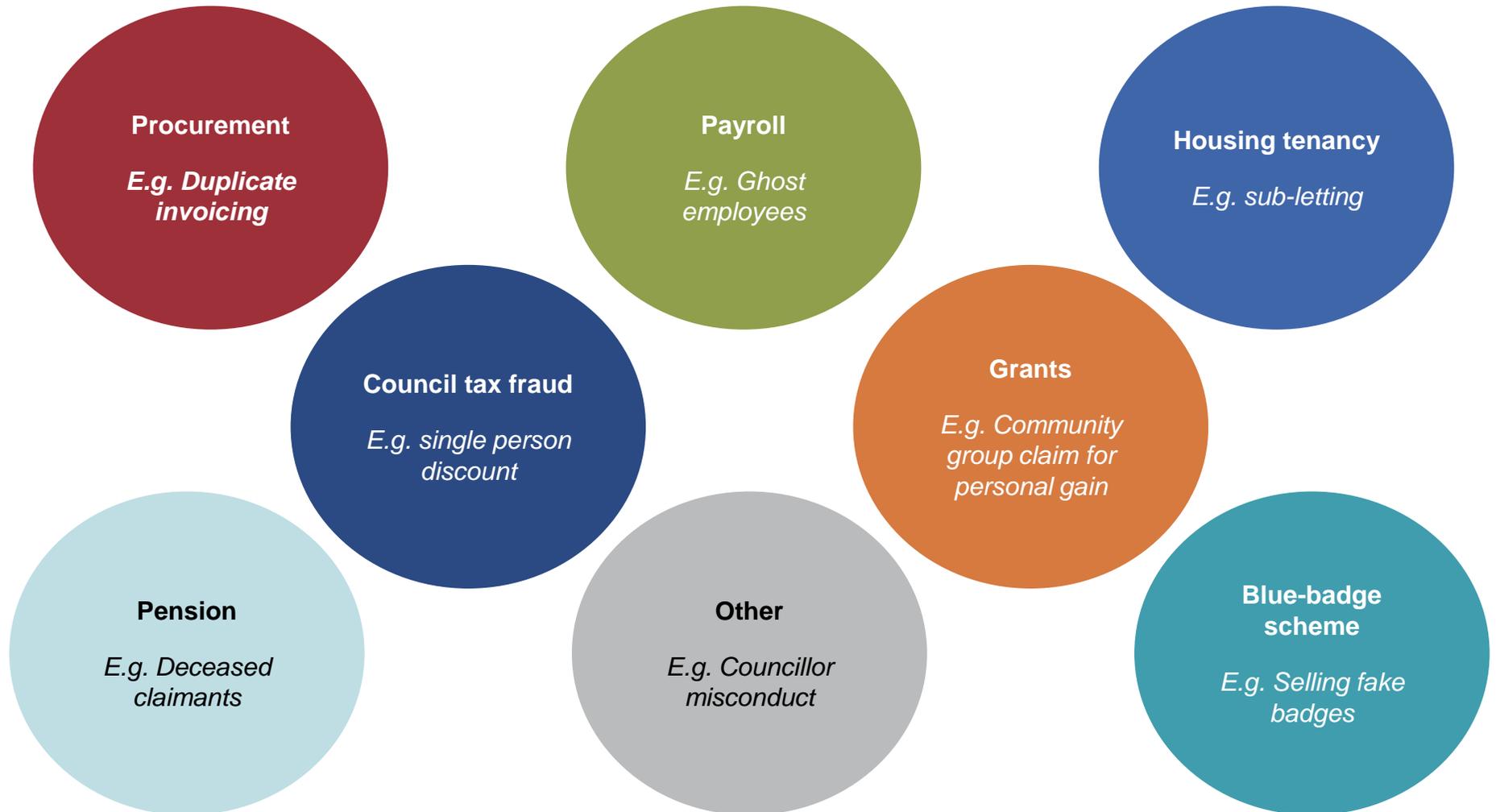
- Demise of the Audit Commission
- Culture of trust
- Systems and processes which may be less robust
- Traditionally less investment in counter-fraud measures

# 1. Introduction and overview

- Estimated loss to the UK economy from fraud is £52 billion annually
- Fraud in Local Government estimated at £2.1 billion annually



## 2. Examples of fraud in Local Government



### 3. Governance and the role of the Audit Committee

- Who has primary responsibility for the management of fraud risks within your authority?
- Who provides oversight and holds the executives / officers to account?
- What information do the Audit Committee receive in relation to Fraud?
- How can you be confident that appropriate systems and processes are in place to identify, manage and mitigate fraud risks?

## 4. What can you do to identify, manage and mitigate fraud?

- Ensure one executive officer has **lead responsibility** for the organisation's fraud strategy and sets a clear tone from the top
- Ensure the Audit Committee acknowledge its responsibilities for oversight of fraud risks and make **fraud reporting a standing item on Audit Committee agendas**
- Undertake a **fraud risk assessment** to identify priority / critical risk areas
- Develop a **fraud strategy** for the organisation which focuses efforts and resources on priority areas
- **Raise awareness** of fraud risks across the entire organisation and ensure individuals in key roles are **adequately trained**
- Implement a robust and independent **whistle-blowing policy**

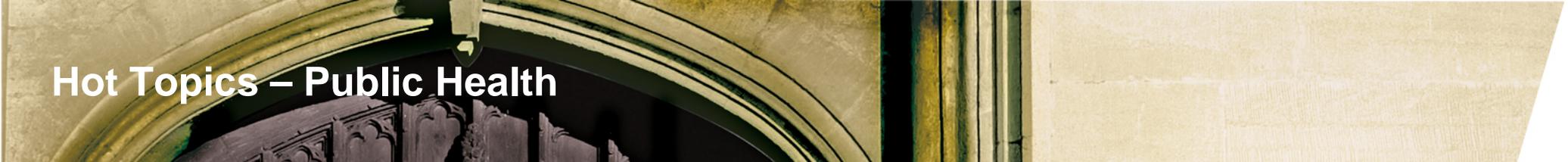
## 4. What can you do to identify, manage and mitigate fraud?

- Use **data analytics** to monitor and measure key fraud risk indicators
- Maintain in-house, or work with an appropriate supplier, to **retain specialist fraud investigation resources**
- Learn lessons from previous fraud cases and feed the findings back in to risk assessments, training and control improvements
- Work with partners and 3rd parties to develop a **co-operative approach to fraud**, share information and keep abreast of changing fraud patterns
  - Replicate the work of the **National Fraud Initiative** and replicate at a local level
  - Contribute to **Fighting Fraud Locally**: The Local Government Fraud Strategy



**Public Health**

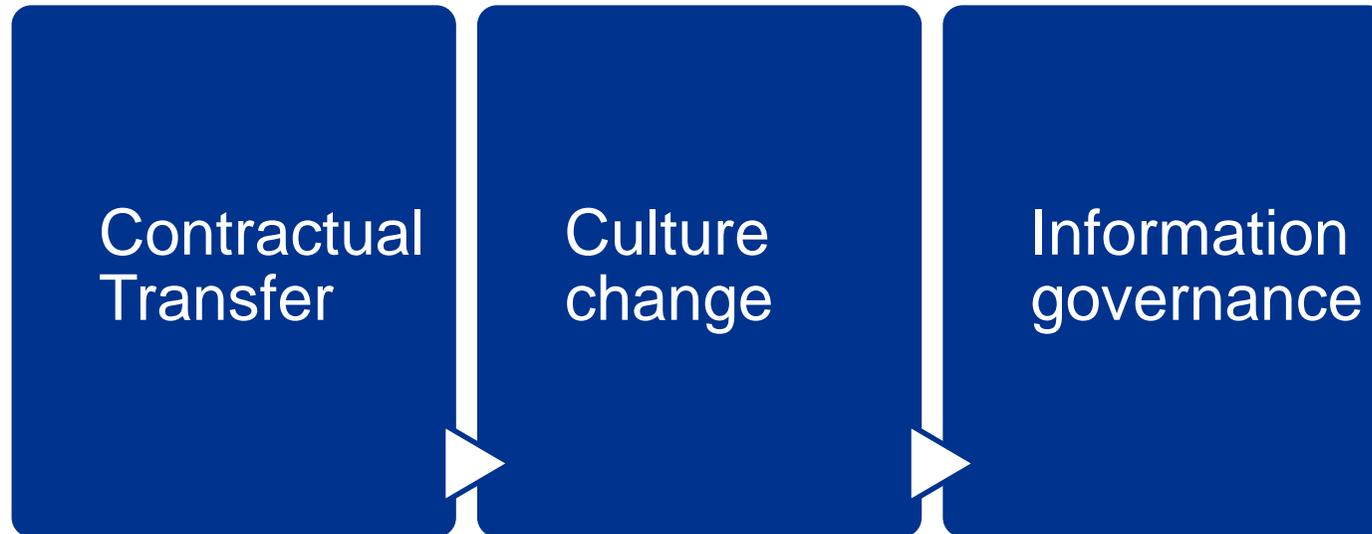
**Damian Murray**



## Hot Topics – Public Health

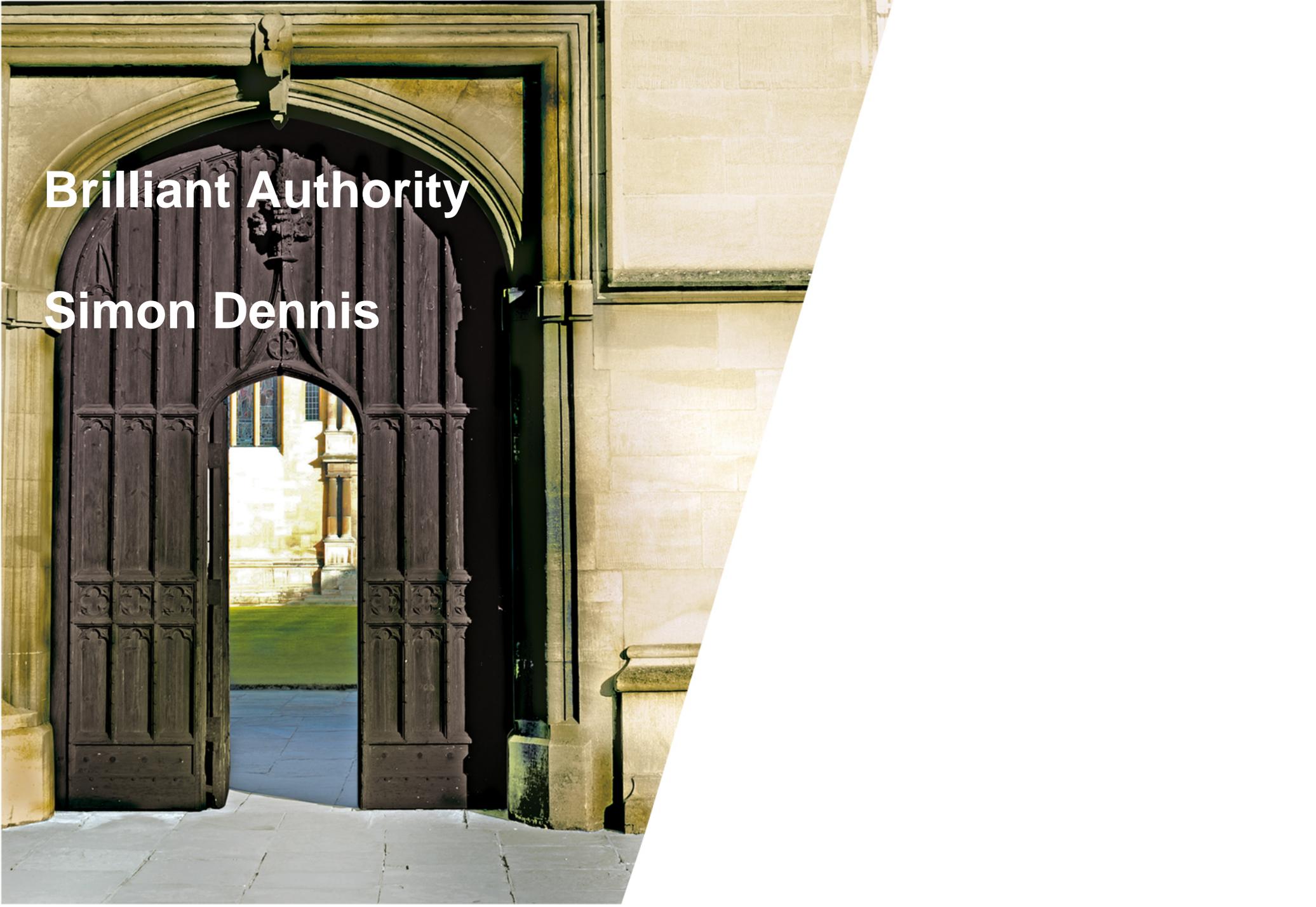
- Since April 2013, upper tier and unitary authorities are responsible for health improvement backed by a ring-fenced grant.
- One of the most significant extensions of local government powers and duties in a generation.
- Duty to take such steps as the Council considers appropriate to improve the health of people in its area.
- Must have regard to the Public Health Outcomes Framework.
- Expected to be supported by existing expertise in districts e.g. environmental health.
- Headed by a Director of Public Health who is a statutory chief officer reporting to head of paid service.

# Public Health – Key Risks to the Council



# Public Health – Considerations for Audit Committee

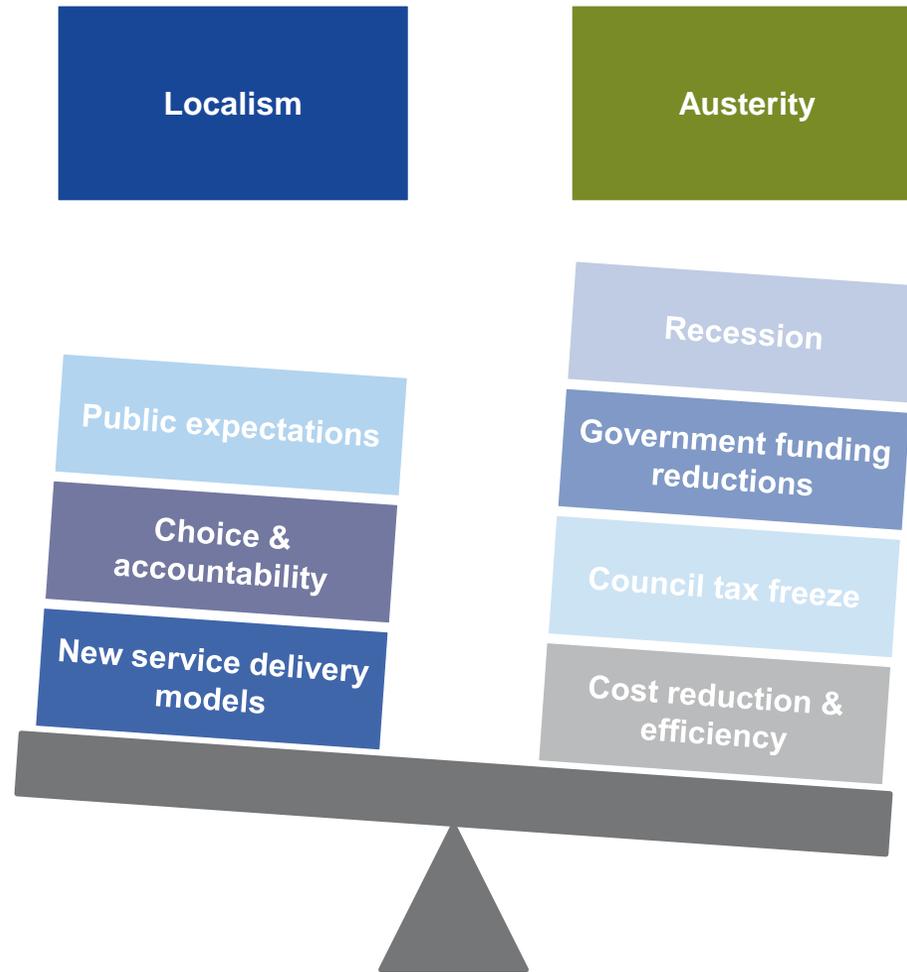
- Finances – how is the ring-fenced grant being invested?
- Governance – are the arrangements appropriate and meeting the stated requirements?
- Assurance: is the internal audit plan considering this as a risk to review?
- Partnerships – relationships with CCGs, awareness of providers of public health services (community services providers).



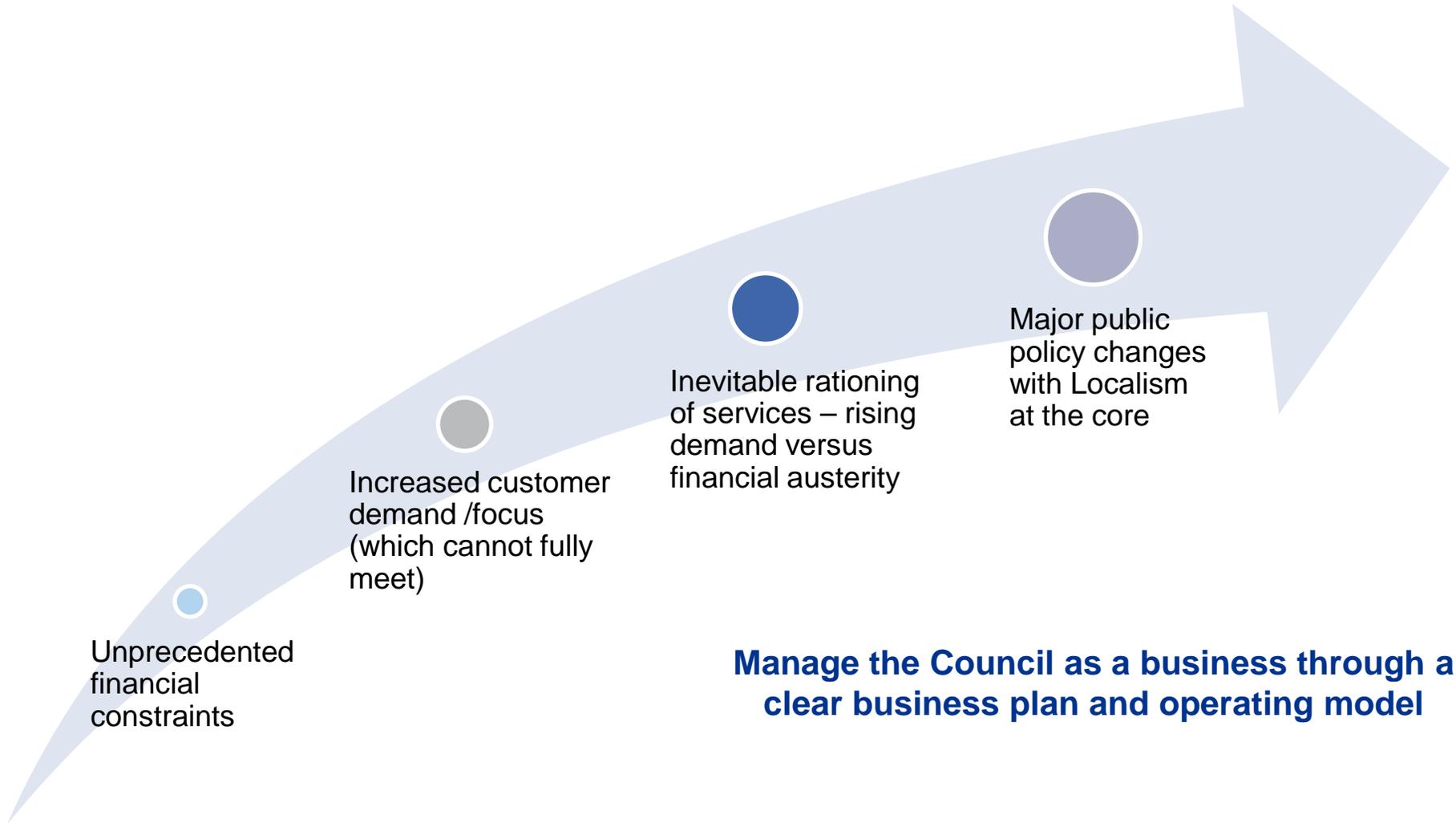
**Brilliant Authority**

**Simon Dennis**

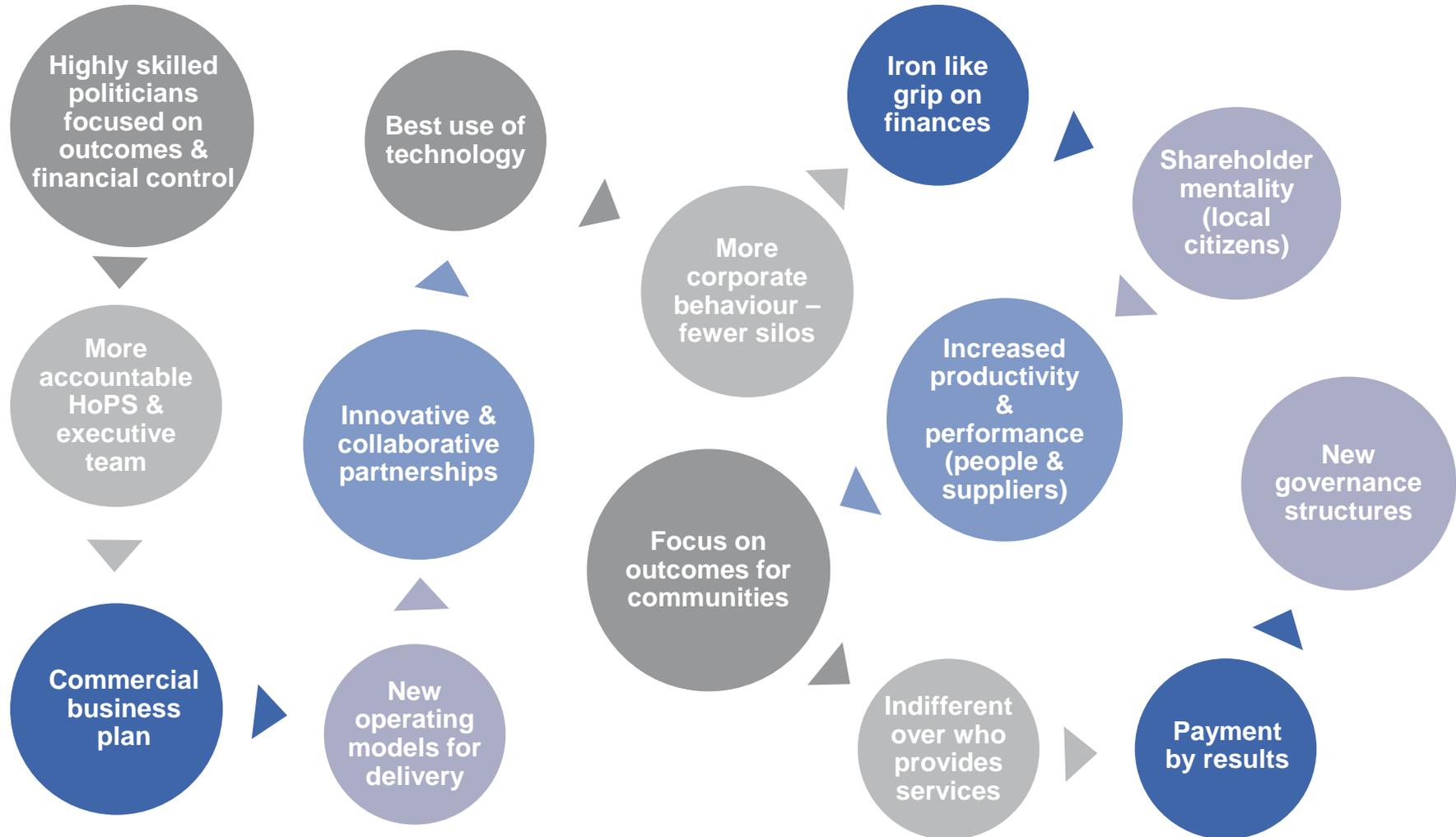
# The local government context – now



# Context – Next 5 years



# A 'brilliant' authority – key features



# Financial Grip

- In an age of austerity, an **iron-like grip on the organisation's financial position** will be imperative
- There will be a significantly enhanced board level role for the Finance Director, but operating in a **much more commercial manner**, far less as a monitor of expenditure
- This means operating with a **board of shareholders mentality** (local citizens being the shareholders seeking maximum returns)
- This will entail a **focus on management accounting and understanding the financial and operational performance** of all parts of the business
- It also involves **improved cash and expenditure controls**, especially third party spend.



# Financial Grip – examples of what does ‘best in class’ looks like?

## A Finance function that is...





## Audit Committee considerations

- Does your authority have ‘financial grip’:
  - How does it perform currently – on ‘the basics’ and in promoting and supporting change and improvement?
  - What are its strengths?
  - What are its weaknesses/improvement needs?
  - What steps need to be taken to improve?
- Do you receive the necessary assurance on these matters as an audit committee?
- Is the audit committee sufficiently proactive in asking questions & requesting reviews/updates/reports?

Thank You





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