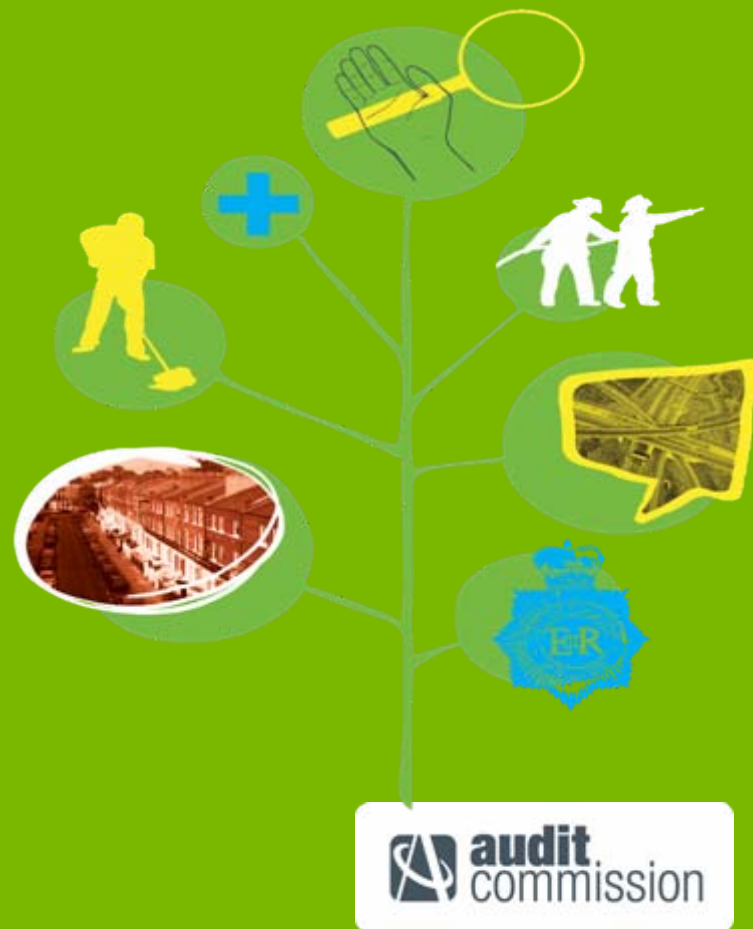


Auditing value for money in England

EURORAI 2011



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District Auditor



Today's presentation

- 1. The auditors' role in relation to value for money,**
- 2. What we consider in relation to VFM**
- 3. Practical application at a local authority:**
 - risk assessment
 - detailed work
 - reporting



Auditors' responsibilities

Why audit value for money?

- A requirement of the Audit Commission Code of Practice for all public sector bodies
- Auditor required to conclude and provide an opinion on value for money
- To promote improvement in economy, efficiency and effectiveness



Auditors' responsibilities

- Code of Audit Practice requires auditors to review 'proper arrangements', defined as **'corporate performance management and financial management arrangements that form a key part of the system of internal control'**.
- Consider local authorities' self-assessment as reported in their Annual Governance Statement



Change of emphasis in current economic climate

- Fees are charged for audits, and the emphasis is on decrease in public spending
 - VFM work in 2011 will be more focused and less costly, so audit work and fees can reduce
 - Auditors' work must reflect the size and performance of the local authority
 - Focus on 'corporate arrangements' – not delivery of front line services
 - Outcome is 'yes' or 'no' conclusion – not 'scores'
-



What do auditors consider in relation to value for money?

Two specified areas

- The organisation has proper arrangements in place for securing **financial resilience**; and
- The organisation has proper arrangements for **challenging how it secures economy, efficiency and effectiveness**

Financial resilience

Characteristics of financial resilience

- Financial governance
- Financial planning
- Financial control



Challenging how it secures economy, efficiency and effectiveness

Characteristics of 'proper arrangements'

- Prioritising resources within tighter budgets
- Improving efficiency and productivity





The auditor's risk assessmentthe approach

- Consider the impact of national and local risks
- Assess the authority's own risk assessment and their arrangements to manage the risk
- Use evidence gained from previous audit work and the local authority's response
- Look at the use made of benchmarking

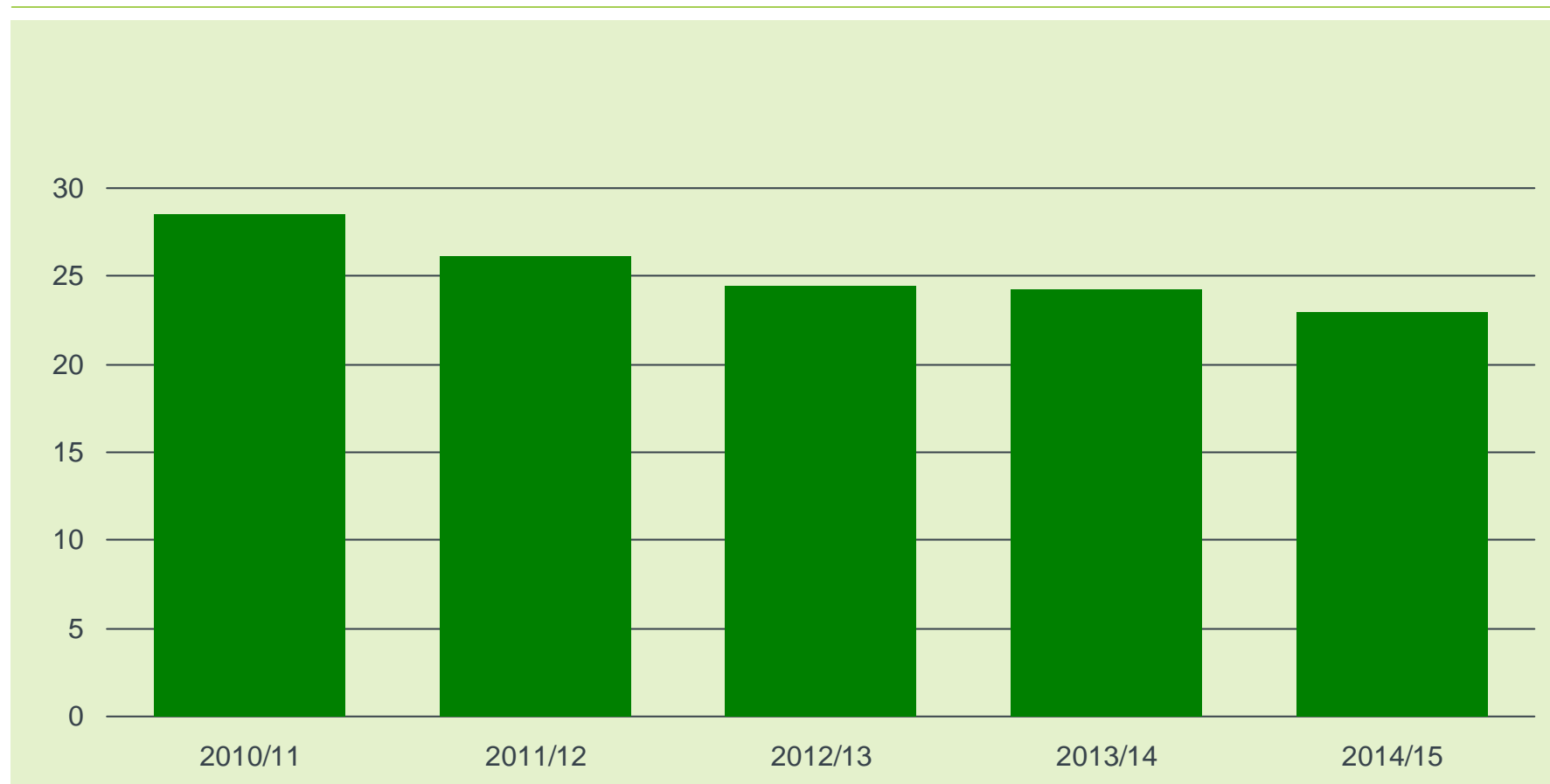


Local risks from the national context

- Reduced income for all councils – between 8% and 16%
- The gap between available resources and rising demand and expectations
- Local authorities' political will and scope to share services with others



local government funding reduces by £6bn over 2010 – 2015



Source: HM Treasury



Local risk examples

financial resilience

Financial governance

- Poor skills and low capacity in finance team
- Poor understanding and communication of financial strategy

Financial planning

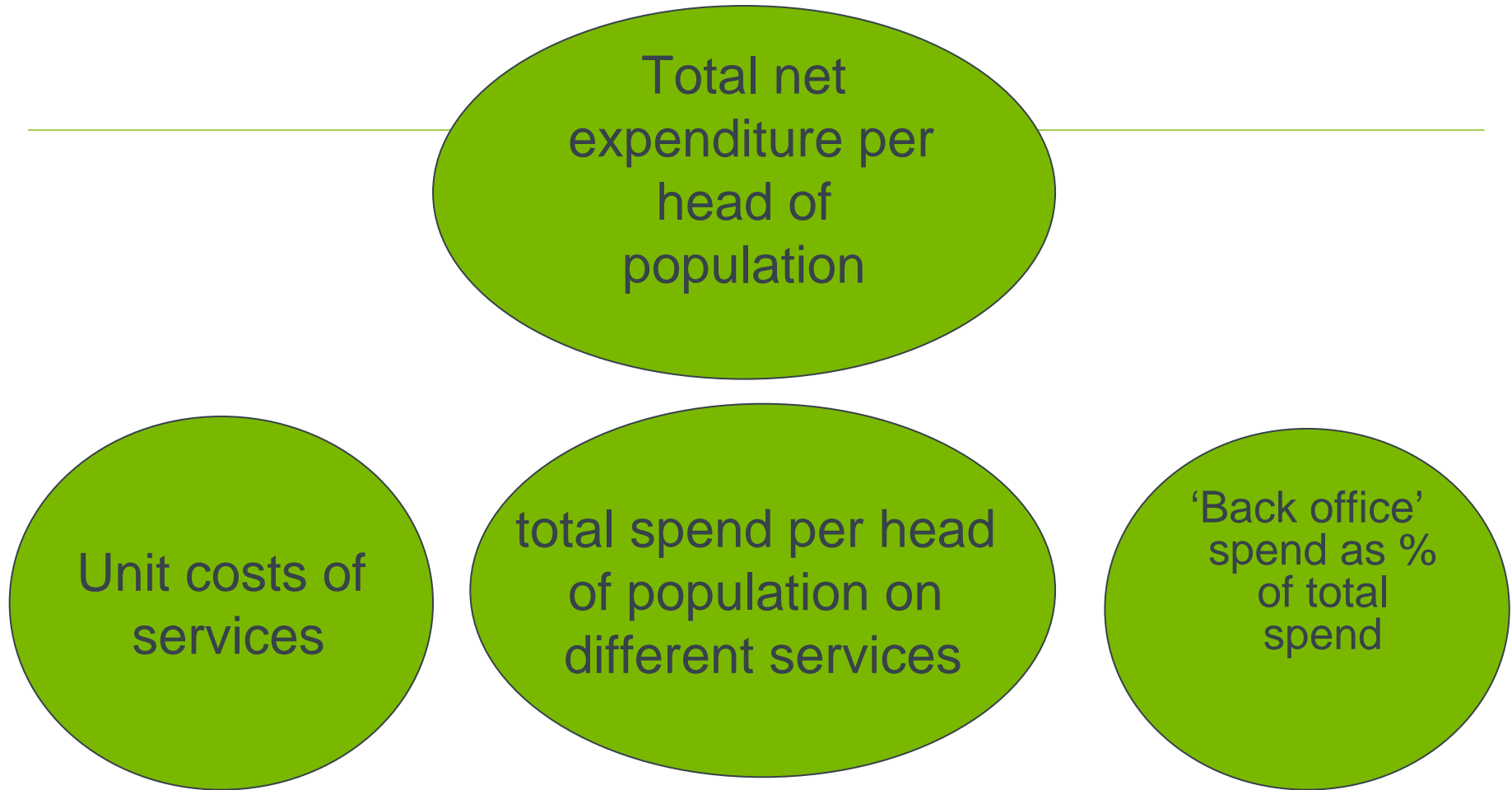
- Low level of financial reserves
- Poor medium term financial plan
- Little use of financial modelling or scenario planning

Financial control

- Poor in year forecasting and large budget variations
 - Prior year budget overspend
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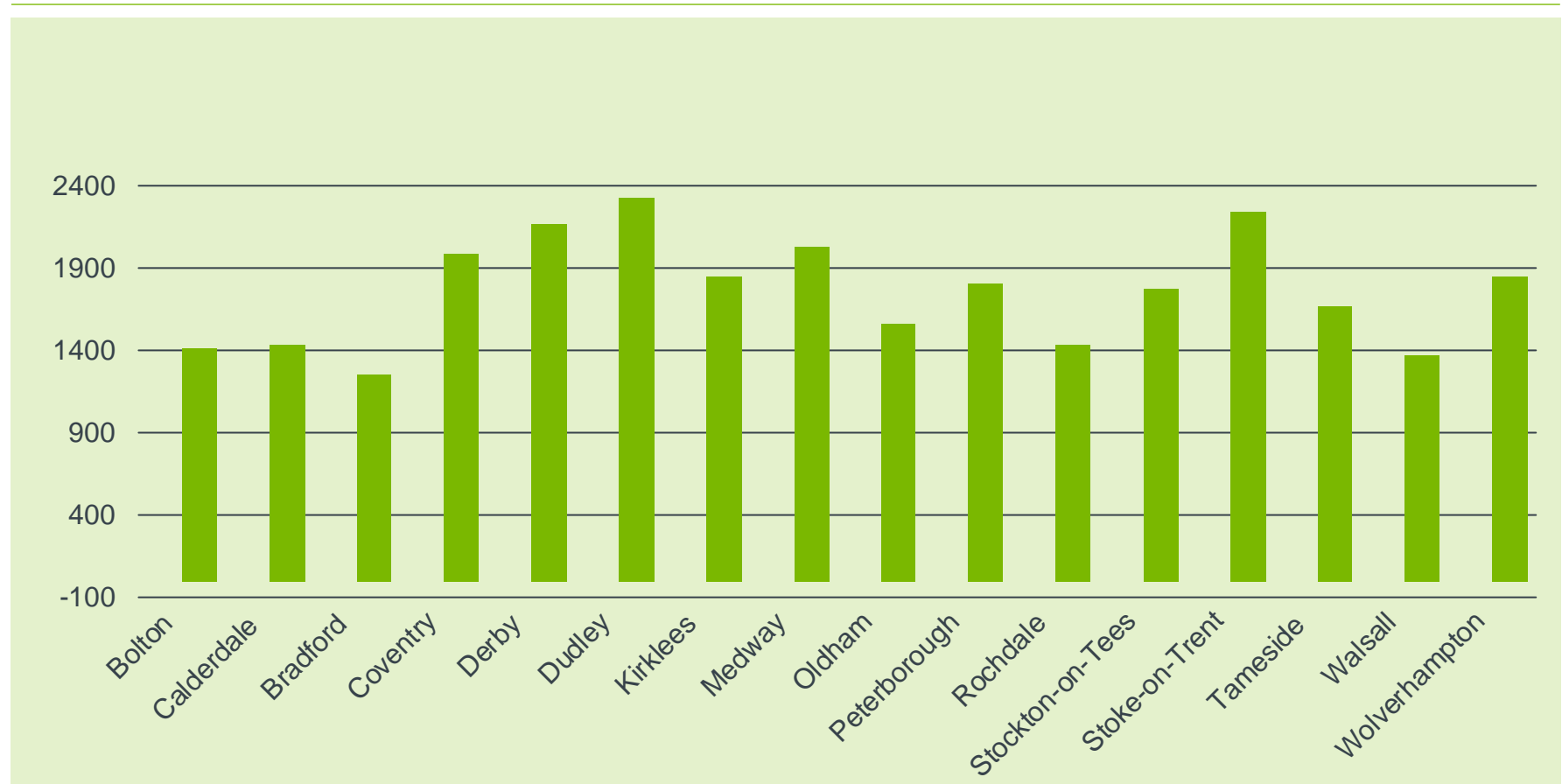
VFM Profiles - indicators





VFM profile tool comparators – an example

Children's services expenditure, except schools - 2010/11



Source: VFM Profile tool



Local risk examples

challenging economy, efficiency and effectiveness

Prioritising resources within tighter budgets

- Poor quality of information for decision making
- Ineffective resource prioritisation and spending reductions
- Weak option appraisal

Improving efficiency and productivity

- poor information on unit costs
- No use of benchmarking
- Weak efficiency plans



Targeted work based on risks

- Assess the significance of risks to judgement
- Explore issues from VFM profile tool and/or financial ratios tool
- Apply updated Audit Commission study briefings and efficiency guides on specific areas, such as:
 - Strategic asset management
 - Charging for local services
 - Managing sickness absence
 - Improving efficiency of ‘back office’ functions



Public reporting of auditors' work

- Risks reported in audit plan
- Report significant findings to councillors and management in Annual Governance Report
- Final accounts opinion and vfm conclusion
- Annual audit letter
- Public interest report if there are matters of concern.

Conclusion

Questions?

