

Darlington Borough Council

Value for Money update

Presented to the Audit Committee

18 March 2016



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1.

Executive Summary

Local Audit and
Accountability
Act 2014

- ▶ The Audit Commission was abolished by the Local Audit and Accountability Act 2014 (“the Act”) with responsibility for the preparation, publication and maintenance of the Code of Audit Practice, which drives the Value for Money (“VFM”) framework in England, passing to the Comptroller and Auditor General.

New Code of
Audit Practice

- ▶ The Comptroller and Auditor General leads the National Audit Office (“NAO”), as a result the NAO have developed and published the new Code of Audit Practice. The revised code took effect from 1 April 2015.

New VFM
framework

- ▶ The VFM framework is driven by the new Code of Audit Practice. The code requires auditors to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- ▶ The Comptroller and Auditor General also issues separate Auditor Guidance Notes (“AGNs”) to help auditors better understand the new VFM principles.

Change in criteria

- ▶ Under previous Codes of Audit Practice, there were two separate criteria that auditors were required to consider. However, under the new NAO Code of Audit Practice, these criteria have been removed and replaced by a single criterion, which aims to rebalance the focus of auditors’ work.

Audit Process

- ▶ The new criterion requires a detailed VFM risk assessment to be completed by the auditor prior to the commencement of the VFM opinion work. This has replaced the standardised VFM checklist that was often used by auditors.
- ▶ The risk assessment requires the auditor to assess whether there are any significant risks to the VFM conclusion, based on an assessment of both sector and organisational information available. This assessment then drives the amount of audit work required.

2.

Overall Criterion

The changes in the Code of Audit Practice have resulted in a single, overall reporting criterion which attempts to refocus the auditors' work on the arrangements in place at the organisation that contribute to the achievement of VFM.

The NAO define the new overall criterion as:

"..In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

The new overall criterion replaces the previous criteria of:

- ▶ 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.

Proper arrangements

Both the Act and the Code require auditors to assess whether the organisation has put in place "proper arrangements" that ensure economy, efficiency and effectiveness in its use of resources.

The Code states that when assessing whether an organisation has proper arrangements in place, auditors should consider:

"...What arrangements the audited body is expected to have in place. This should be based on the relevant governance code or framework for the type of local public body being audited, together with any other relevant guidance or requirements. "

By requiring auditors to focus their work on whether organisations have proper arrangements in place, the new criterion is attempting to remove the attention of VFM conclusions away from final outcomes. This is due to the NAO believing that auditors have focussed too much work on final outcomes in recent years, particularly in relation to whether organisations are financially resilient.

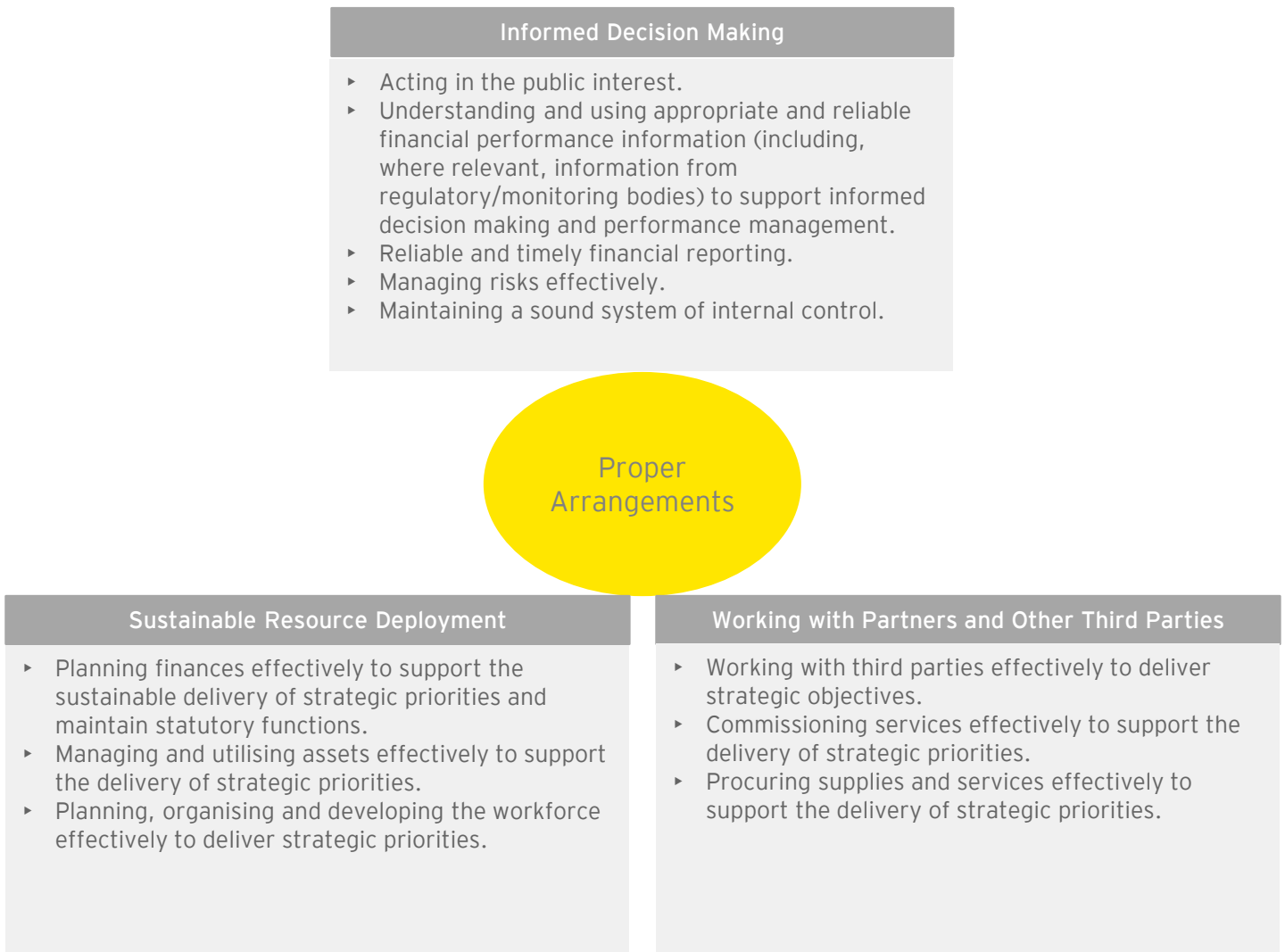
3. Sub Criteria

To help auditors consider the overall criterion, three separate sub criteria have been developed, which are intended to guide auditors to the key elements they should be considering when reaching their VFM conclusion. The three sub criteria are:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

The Auditor Guidance Notes are however clear that these are not separate to the overall criterion and that there is no requirement to reach and report a conclusion against each one.

The following diagram details both the sub-criteria and the proper arrangements which relate to the sub-criteria:

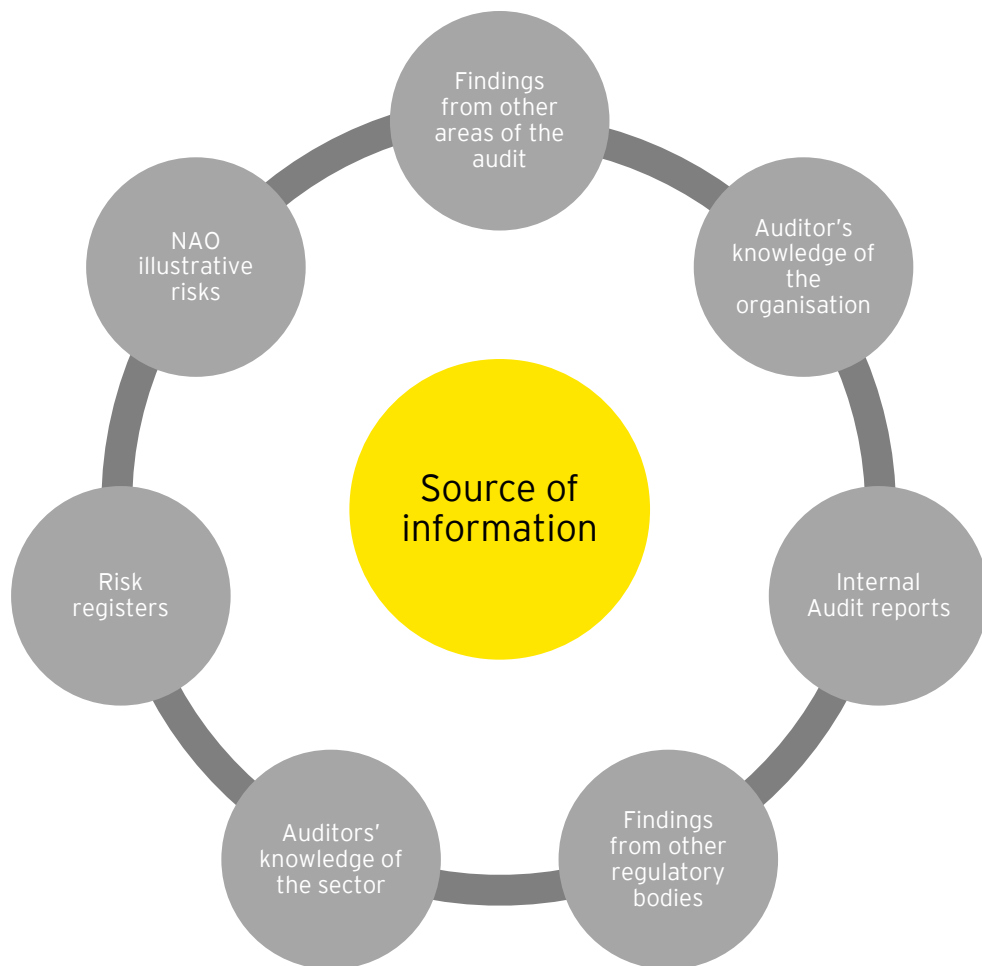


4. Auditor's Risk Assessment

The new framework has therefore introduced the requirement for a detailed auditor's risk assessment to be performed, that focuses on the circumstances of the organisation.

This risk assessment requires the auditor, as a minimum, to consider the significance of business and operational risks insofar as they relate to "proper arrangements". This should include risks at both sector and organisation-specific level, and enables the auditor to draw on relevant cost and performance information as appropriate.

The auditor is also required to consider the impact of findings of other inspectorates, review agencies and other relevant bodies as part of their risk assessment, where they are relevant and reliable. Information relevant to the risk assessment could come from a variety of sources, which may include but are not limited to:



The auditors risk assessment enables us to determine the nature and extent of further work that may be required to help us reach our opinion. This means that if we do not identify any significant risks as part of our risk assessment then there is no requirement to carry out any further work.

5.

Significant Risks

In undertaking our risk assessment procedures, we need to determine whether there are any risks that could be classed as “significant”.

The code of audit practice defines “significant” as follows;

“...A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public.

Significance has both qualitative and quantitative aspects.”

The table below sets out a number of illustrative significant risks. We have assessed the significant risks impacting on our VFM opinion for Darlington Borough Council and these are detailed in our Audit Planning Report.

Organisational change and transformation	Risks may be present where the organisation is undertaking significant: <ul style="list-style-type: none"> ▶ Reorganisation or merger; ▶ Major outsourcing; ▶ Change management; ▶ Significant capital projects; and ▶ Debt restructuring.
Significant funding gaps in financial planning	Significance of budget gaps will depend both on the size of the funding gap, and at what point it emerges in the organisation’s medium term financial plans. Where the organisation has a significant budget gap in terms of funding, and especially where a significant level of as yet unidentified savings are required to deliver a balanced budget, we are required to consider this issue as a significant risk.
Legislative/policy changes	Where an organisation is taking on a significant new function as a result of changes in legislation or national policy decisions.
Repeated financial difficulties, or persistently poor performance	Where an organisation has a history of financial difficulty, or persistently performs poorly in one of more significant service areas with insufficient evidence of the likelihood of securing improvement.
Other sources	Risks may be present where an independent inspectorate, review agency or other relevant organisation identifies significant concerns about the quality of the services provided.

Auditors are required to consider significant risks only where they are relevant, and there is no expectation that a significant risk will be identified every year. However, where a significant risk is identified then additional work is required, although the amount of additional audit work is subject to the professional judgement of the auditor.

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