1. **Background**
   As part of their April 2012 update to Members of PAASC on the progress in delivering their External Audit responsibilities, the Audit Commission highlighted key emerging national issues and developments of interest to PAASC and proposed questions which the Committee would wish to consider in order to assess whether it has received sufficient assurance on emerging issues. This report provides such assurance to Members.

2. **Questions raised by Audit Commission**

2.1 Has the Council completed the Audit Commission's annual fraud and corruption survey?
   As in previous years, the Council has submitted a full return to the Audit Commission's annual fraud and corruption survey. This data feeds into the Audit Commission publication “Protecting the Public Purse” which is issued around November each year. The publication is a useful source of emerging fraud risks.

2.2 Has the Council considered the implications of the amendments to the capital financing regulations?
Officers have considered the implications of the amendments to the capital financing regulations, which are summarised below:

2.2.1 Amendment: Minimum Revenue Provision (MRP): The Minimum Revenue Provision is an accounting adjustment which sets aside an equal proportion of capital borrowed per year, over the lifetime of the asset. The amendment to the MRP relates to the HRA self-financing payments. If the HRA self-financing payments caused an increase in the capital financing requirement, then this can be ignored for the purposes of determining the Minimum Revenue Provision.
Implications for LBBD: As LBBD took out a £265.9m loan for HRA self-financing, if this was deemed to have increased the Council’s capital financing requirement then an increased MRP would have resulted, meaning a larger call on revenue resources. The amendment means that, as for all affected Councils, the MRP is not affected by HRA self-financing.

2.2.2 Amendment: Private sector bonds: Investing in private sector corporate bonds will no longer be deemed to be capital expenditure.
Implications for LBBD: This will give greater flexibility for the treasury management strategy

2.2.3 Amendment: Securitisation: This is a process whereby a lump sum is received in return for the right to a future income stream. This is to be treated as a form of borrowing and can only be used to fund capital expenditure. However, DCLG also raise the question of whether it would in fact be legal for authorities to enter into this type of transaction
Implications for LBBD: Greater flexibility in raising finance, but questions of legality would need to be dealt with.

2.2.4 Amendment: Construction / Purchase of assets for resale: Expenditure on the construction or purchase of assets that are then disposed of may be treated as capital expenditure. This amendment is to prevent any hindrance to initiatives such as the provision of affordable housing
Implications for LBBD: This may be useful depending on what future housing initiatives are undertaken by the Council.

2.3 Has the Council considered the guidance from CIPFA regarding the settlement payment to the Secretary of State in preparation for self-financing of the HRA?

2.3.1 The guidance related to the introduction of HRA self-financing, whereby Councils had to take on a proportion of the overall HRA debt outstanding in return for taking full control of the rental income from their properties. The Government determined that LBBD’s share of this debt was £265.9m and the cost was met by means of a loan from the Public Works Loan Board.
Implications for LBBD: Following CIPFA’s guidance represents best practice in accounting for this transaction.

2.3.2 CIPFA’s guidance essentially covered the accounting entries that had to be followed to properly account for this transaction. They also recommended that for reasons of transparency, the transaction should be reported individually on the face of the HRA and Comprehensive Income and Expenditure Account. 

Implications for LBBD: The Council has complied with this recommendation and disclosed the payment and reasons behind it in note 5 to the financial statements.

3 Background Papers

- Audit Commission Update to Members April 2012
- The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012

4 Consultations

Group Manager (Internal Audit & Corporate Anti-Fraud)

5 Legal Issues

There are no legal implications.