

Audit Committee Update for Ashford Borough Council

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

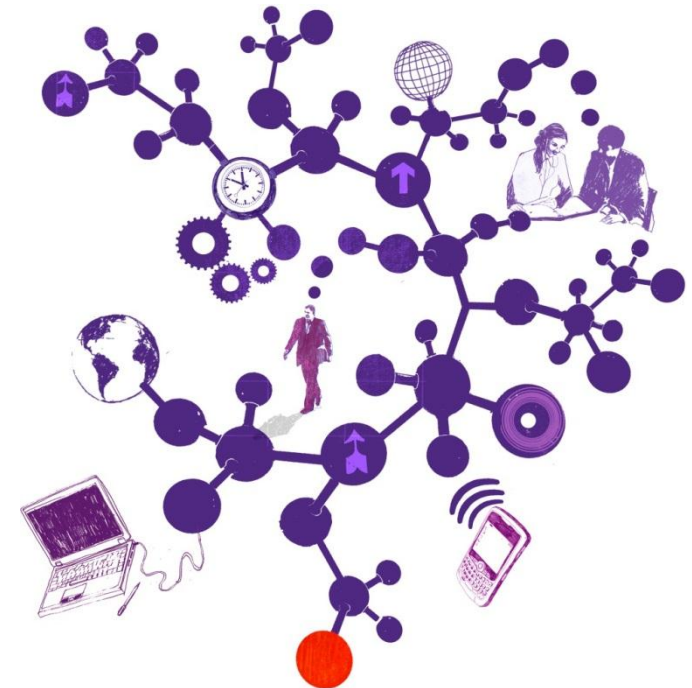
Year ended 31 March 2013

27 June 2013

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a district council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 27 June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	March 2013	Yes	Presented to the March 2013 Audit Committee
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the <i>Council's</i> control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January to June 2013	Ongoing	<p>We have now substantially completed our interim work except for the work on the proposed vfm conclusion which will continue until we sign our opinion.</p> <p>There are currently no matters arising which require reporting to members at this stage.</p>
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the <i>Council's</i> accounts • proposed Value for Money conclusion. 	July to September 2013	Outstanding	

Progress at 27 June 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • An initial risk assessment; • A detailed risk assessment focusing on the two specified criteria, that the organisation has: <ul style="list-style-type: none"> ○ Proper arrangements in place for securing financial resilience; and ○ 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. <p>We will:</p> <ul style="list-style-type: none"> • provide the vfm conclusion at the same time as our opinion on the financial statements; and • Report our findings in the key issues memorandum and financial resilience report 	<p>January to September 2013</p>	<p>Ongoing</p>	<p>Following our initial risk assessment our work will specifically focus on:</p> <ul style="list-style-type: none"> • The medium term financial plan; • 2012/13 financial performance; and • Progress made with savings plans. <p>We will report our findings to the September Audit Committee.</p>

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued LAAP Bulletin 96. The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013
- accounting for carbon reduction commitment (CRC) energy efficiency scheme assets
- accounting for the transfer of public health reform in 2013/14.

Challenge question:

- Has your Finance Manager reviewed the guidance and assessed the potential impact for your financial statements?

Emerging issues and developments

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Finance Manager aware of the changes to the 2013/14 Code and assessed the potential impact?
- In particular, has your Finance Manager consulted:
 - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
 - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a set of case studies, available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

See - <http://www.nao.org.uk/report/internal-audit-in-practice-case-studies/>

Challenge question:

- How can you drive more organisational value from internal audit?

Emerging issues and developments

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Use of Outsourced IT Services

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within the Local Government sector. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- a major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- a large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

Challenge question:

- Are you happy that your ICT Operations Manager has procedures in place to monitor and manage risks of outsourced IT services?

If you have any queries, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its 2010/11 WGA report - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.

See - <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpublicacc/867/867.pdf>

- DCLG published an unaudited consolidated account for English Local Government 2010/11 - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

See - <https://www.gov.uk/government/publications/whole-of-government-accounts-for-local-government-2010-to-2011>

Challenge question:

- Has your Finance Manager considered these reports and any lessons for the authority?
- Has your Finance Manager produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

The National Audit Office has published 'Fact Sheet: Governance Statements: good practice observations from our audits' providing: insight and commentary on the first year of Governance Statement reporting observations on good practice "challenge questions" for those whose role it is to oversee and scrutinise an organisation's Governance Statement.

See - <http://www.nao.org.uk/report/governance-statements-previous-statement-on-internal-control-3/>

Challenge questions:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Emerging issues and developments

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published 'Openness and transparency on personal interests - A guide for councillors'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

See - <https://www.gov.uk/government/publications/openness-and-transparency-on-personal-interests-guidance-for-councillors>

Challenge question:

- What has your authority done to improve awareness of openness and transparency requirements for councillors?



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