

Agenda Item No: 9
Report To: **AUDIT COMMITTEE**



Date: **3 DECEMBER 2013**

Report Title: External Auditor's 'Audit Committee Update'

Report Author: Andy Mack, Director Grant Thornton UK LLP (External Auditor)

Summary:

The attached update from our external auditor provides an update of ongoing work for the current audit year. Furthermore it provides a commentary on national emerging issues and in relation to these poses some questions for the committee.

Andy Mack will be present to introduce the report and take questions.

On the emerging issues these cover: the new and strategic focus for councils on business rate yield, a national voluntary code and toolkit to evaluate the performance of the HRA, potential procurement fraud, a continuing focus on the need to streamline councils' financial statements, and progress with the Local Audit and Accountability Bill (this bill ends the role of the Audit Commission and provides councils with the responsibility for procuring external audit services).

As the emerging issues and questions posed are far reaching the committee is being recommended to consider these at its various meetings during 2014, particularly those that have a bearing on the management of strategic risks.

The update also confirms that the fee for the 2013-2014 audit is at the same level as for the current year.

Key Decision: NO

Affected Wards: None specifically

Recommendations: **The Committee is asked to note the external auditor's update and agree that the emerging issues and questions posed be considered by the committee over the course of its meetings in 2014.**

Policy Overview: The role of external audit is statutory and is critical to public accountability and therefore sound governance. Maintaining a good working understanding between the council and its external auditor is critical also to good governance.

Financial Implications:	The audit fee for the 2013-2014 audit is as expected and therefore as planned within the draft budget. There are no further direct financial implications from this report.
Risk Assessment	The update highlights a number of potential risks, some of which are already understood by the council and are part of our risk management arrangements. It is being recommended that the committee examines the issues highlighted over the course of 2014.
Equalities Impact Assessment	Not applicable.
Other Material Implications:	None
Background Papers:	None
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Audit Committee Update for Ashford Borough Council

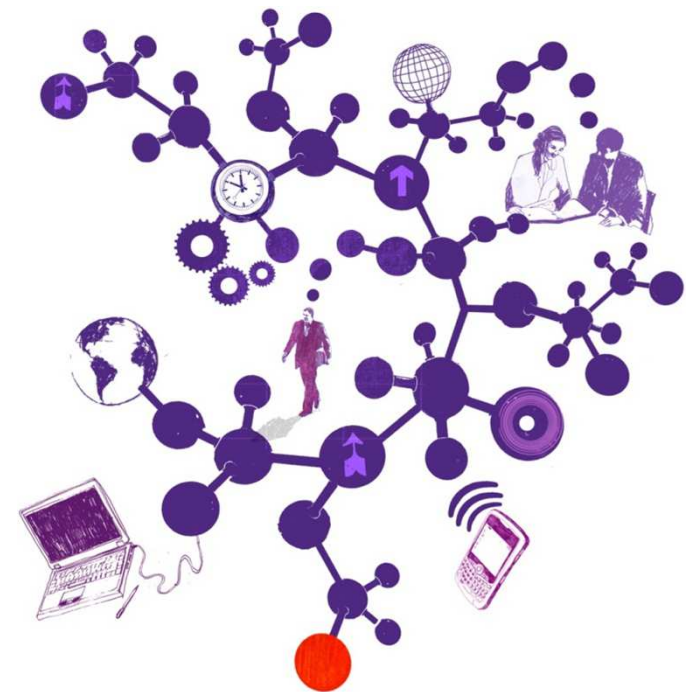
Year ended March 2014

November 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 November 2013

Work	Planned date	Complete?	Comments
<p>2013-14 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 2013-14 financial statements.</p>	March 2014	Not yet due	We issued the fee letter to officers in March 2013 as attached at appendix A. The Audit Commission has independently set the scale fee for all bodies. The Council's scale fee for 2013/14 is £79,515 (£79,515 in 2012/13).
<p>2013-14 Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's 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. 	November 2013 – March 2014	Not yet due	The results of our interim work will be reported to the March committee meeting within the Accounts Audit Plan.
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts 	July 2014 – September 2014	Not yet due	The results will be reported to the September committee meeting.

Progress at November 2013

Work	Planned date	Complete?	Comments
<p>2013- 14 Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion is based on the reporting criteria specified by the Audit Commission: The Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> • securing financial resilience – with work focusing on arrangements relating to financial governance, strategic financial planning and financial control. • challenging how it secures economy, efficiency and effectiveness in its use of resources. 	March 2014- September 2014	Not yet due	The results will be reported to the September committee meeting.
<p>2013-14 Grant Certification We will be required to certify the following grants for the Council in 2013/14:</p> <ul style="list-style-type: none"> • Housing and council tax benefit • Pooling of housing capital receipts 	June 2014- November 2014	Not yet due	All initial testing on the housing and council tax benefit grant claim will be completed before the end of September and used to support our audit opinion on the financial statements.

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published '[Business rates: using data from the VFM profiles October 2013](#)'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Challenge questions:

- Have your officers reviewed the costs and performance of your authority against similar organisations?
- Are you satisfied that your authority has made a robust estimate for its provision for business rate appeals?

Emerging issues and developments

Local government guidance

Voluntary Code of Practice on the Housing Revenue Account

In October, CIPFA and the Chartered Institute of Housing (CIH) issued the ['Voluntary Code for a Self-financed Housing Revenue Account'](#).

The voluntary code aims to give authorities the tools necessary to control and evaluate the performance of their HRA and increase the value it returns to both councils and rate payers. It will also help authorities to assess and develop effective governance and financial management frameworks for their HRA.

This code is designed to be self-regulatory and compliance is not formally required.

Challenge questions:

- Has your authority reviewed the HRA in light of this new guidance?

Emerging issues and developments

Grant Thornton

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Challenge questions:

- Does your authority have a properly functioning procurement process, where duties are clearly segregated?
- Does your authority maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

Challenge questions:

- How are you planning to improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of your authority?

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?



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16 April 2013

Dear John

Planned audit fee for 2013/14

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2013/14 has been set by the Audit Commission at £79,515, which compares to the audit fee of £79,515 for 2012/13.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme.

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The Council's composite indicative grant certification fee has been set by the Audit Commission at £12,600.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2013	19,878.75
December 2013	19,878.75
March 2014	19,878.75
June 2014	19,878.75
Grant Certification	
June 2014	12,600
Total	12,600

Outline audit timetable

We will undertake our audit planning and interim audit procedures from December until March. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2014 and work on the whole of government accounts return in August 2014.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2013 to March 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to Sept 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.

VfM conclusion	Jan to Sept 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	Jan to Sept 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2014	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Andy Mack	02077 283299	andy.l.mack@uk.gt.com
Engagement Manager	Steve Golding	01293 554069	steve.h.golding@uk.gt.com
Audit Executive	Laura Leka	01293 554084	laura.leka@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner paul.dossett@uk.gt.com .

Yours sincerely

Andy Mack

Director
For Grant Thornton UK LLP