

Agenda Item No: 13
Report To: Audit Committee
Date: 18th March 2014
Report Title: **The Audit Plan**
Audit Committee Update
Report Author: Ben Lockwood
Finance Manager



Summary: This paper introduces two reports from our external auditors that are designed to bring members up to date with their progress as our auditor and to outline their program of work for the coming months.

The reports contain a number of questions for members to consider and the report seeks to add some context to issues discussed.

Key Decision: NO

Affected Wards: All none Specifically

Recommendations: **The Audit Committee be asked to:-**
1. Note the Audit Plan
2. Note the Audit Committee Update

Policy Overview: The Audit Committee Update paper contains summaries of a number of papers and legislative changes that affect the council. Each section poses a number of questions to the committee that it may wish to discuss.

This follows on from the informal meeting that was held to discuss the 'tipping point' paper and much of the context contained within the reports on the budget and medium term financial plan.

Other Material Implications: None

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Report Title: The Audit Plan

Audit Committee Update

Purpose of the Report

1. To provide members some context to the issues discussed in the external auditor's reports.

Issue to be Decided

2. The committee is asked to discuss the two reports and consider the recommendations.

Background

3. Grant Thornton has been appointed the external auditor for Ashford Borough Council since September 2012. As auditor they have to produce an annual audit plan and they have also produced a report on their progress delivering their responsibilities as our external auditor.

The Audit Plan

4. This report is largely routine and outlines the auditor's approach to the work they need to do for the coming year. Included within the report is a timeline for this work and an estimate of their fees (which are included in our budget). Members will recall that the outsourcing of the Audit Commission's local audit work achieved a 40% reduction in fee costs fixed for five years. Fees for the financial audit may vary, but only if the external audit team is required to do more work due to the council in some way not fulfilling the standards set for the financial audit. These standards are set out each year as part of the audit fee proposal.
5. The report highlights a number of risk areas that the audit work will examine, the significant risks are common to all audits and relate to national issues, the other risks highlight areas that we would expect the audit to test.
6. The report highlights the results of the interim work for the financial audit. One area addressed following previous audits is the management control of 'journal entries' within the financial ledger. Controls are now in place which involve the Head of Finance routinely monitoring entries, but further discussions with the audit team are ongoing as there is a need to refine these controls to ensure both the process and effort are proportionate to the risks.
7. The audit of the 2012/13 Statements of Account highlighted one recommendation that we need to ensure that **all** members submit a third party declaration of interest form specifically for the accounts audit. Despite several reminders a small number of returns were either late or outstanding at the time of the audit. In response to this recommendation we have commenced this process earlier to give more time to secure a form from all councillors..

Audit Committee Update

8. This report paints a broader context to the audit activity and summarises a number of Grant Thornton's national reports as well as other relevant issues. Grant Thornton include a number of questions for members to consider, note these questions would be posed to the council as a whole.

'Tough Timers 2013'

9. This report looks at the impact of the austerity measures on the sector, whilst it has responded well the continuation of austerity measures through to 2017 and possibly beyond to 2020, looks to increase the pressure on councils to maintain services and deliver balanced budgets.
10. This Council has fared well in the assessments of its financial standing and resilience. However given the aspirations of the Council and the plans to use its own balance sheet strength to promote growth and generate revenue we will need to develop a suite of indicators to allow us to measure and test our balance sheet exposure, in much the same way as a credit risk assessment.
11. The context for this is the Councils own financial planning and aspirations, which were updated and reported to members as part of the budget report. Whilst the authority is forecasting significant budget gaps, the cabinet and the management team is developing a set of savings proposals for the longer term as well as having confidence that ABC is well placed to benefit from the new funding regime for local authorities with buoyant New Homes Bonus receipts and good potential for increasing business rates yield.

Local Audit and Accountability Act

12. Currently our audit arrangements are part of a larger contract that was let by the Audit Commission. Under the act this authority will have the responsibility for appointing its external auditor from a list of eligible firms once the commission is formally abolished in 2015. However existing audit contracts will run beyond that point and so it is still a little unclear as to the precise time when the council will first appoint its external auditor. The committee has received reports about these changes previously and there will be further reports to the committee on this topic later in the year.

'2016 Tipping Point?'

13. Members will remember that the original 'Tipping Point' paper was discussed at an informal meeting of this committee last year. Grant Thornton has updated the findings based on a survey of 40% of the public sector last year. Its conclusions are very much in tune with the council's own thinking. Grant Thornton suggests that councils need a relentless focus on generating additional sources of revenue income, such as: investments in the commercial property portfolio; increased commercialisation of services and local authority trading; and regeneration and inward investment to boost local economic activity. In addition, councils will need to continue to improve efficiency through shared services, strategic partnerships and wider re-organisation.
14. Whilst at this stage the Grant Thornton recommended 'checklist' has not been completed formally as mentioned above detailed financial planning work is underway with the council developing its strategy to meet the financial pressures that are developing. The committee may wish to consider this issue again later in the year as part of its role in overseeing process concerning the council's management of strategic risks.

'Alternative delivery models in local government'

15. This paper looks at some of the alternative delivery models that are being used by the sector to transform the way in which services are delivered. Working in partnership and transforming service delivery through new shared arrangements are principles where some practical applications are currently being considered. These are matters the cabinet and the management team

will review and from that assess the real potential for alternative models as part of the council's longer term business plan and financial strategy. As and when new models are considered this committee would wish to ensure that risks are identified and adequately managed.

Welfare Reform – 'reaping the benefits'

16. Members are asked to remember the pro-active work the Council is currently doing on this agenda, with the dual focus of providing good information, and support and incentives to help with 'back-to-work' aims. . There is a cabinet portfolio holder working group that is monitoring the work that is being done in response to this agenda and we have been engaging with the Department for Work and Pensions to develop a delivery partnership model to support Universal Credit. The Council has introduced two welfare reform officers who are tasked with working with our residents to help them manage the impact of the reforms. Overall this council has responded well to this agenda.

Property Plant and Equipment Valuations

17. The valuation and accounting implications are not expected to be an issue for the 2013/14 accounts due to the new revaluation contract that the council has entered into. This provides for a full revaluation for this year. Consideration will need to be given to how this issue is managed in subsequent years and outcomes will be reported to the audit committee as part of subsequent years' preliminary reporting on the closedown of the accounts.

Accounting for Business Rate Appeal provisions

18. This council has engaged positively with the Valuation Office Agency (VOA) from the very start of the introduction of the local retention of business rates policy. There have been presentation from the VOA as well as officers having met with representatives from them regularly.
19. The rationale for calculating the appeals liability was shared with members (through the former MTFP task group when the 2013 NNDR 1 form was approved) by members, and for 2014 was the assumptions were reported to the members as part of the budget report. The monitoring of business rate appeals handled by the VOA this year suggests that our estimates of potential outcomes were reasonable as actual outcomes are very much in line with the estimate. Information sharing between the VOA and councils is developing and this will greatly reduce the uncertainty carried by the appeals risk.
20. The appeals figure will be considered as part of the closing process and for the formal statement of accounts we feel that because of the information available it is unlikely we will need to disclose a 'contingent liability' for business rates appeals as our financial provisions will present a reasonable estimate of losses.

Accounting for pensions and changes to the pension scheme

21. There have been some amendments to the accounting code of practice that will change the way pensions costs are accounted for. We have drafted new accounting policies (elsewhere on the agenda) and received information from our actuary on the impact of these changes. It is not anticipated that this will result in a material change to the accounts.
22. The actuary has completed the latest triennial valuation of the pension fund, broadly the results were in line with the expected results of the last review and

for 2014/15 our contribution rates will be similar to the current level, with some manageable increases notified for the following two years.

23. On the changes to the pension scheme from April 2014, the council is well prepared for handling the practical implications. Staff are to receive full advice through the internal communication channels. Future payroll audits will examine compliance with the new regulations.

Better Care Fund

24. This new health policy from central government is principally for counties who must take forward through local Health and Wellbeing Boards. The first stage is the preparation of a full business plan. This stage is complete and has been the subject of consultation through the local Board. The first real impacts for the council come in 2015 when funding for disabled adaptation grants from government is channelled through counties and Health and Wellbeing Boards. Initially grant will be passported to districts. However with this and the better care fund arrangements more generally there are opportunities presented for the council to have some greater input to the shaping of local health and wellbeing services. Although early days our local health and wellbeing board is in place with a focus on this agenda, but it will be important for the council in time to assess its true effectiveness.

Handling

25. Members are asked to consider the reports from our external auditors.

Conclusion

26. Overall the reports are positive and show that the relationship with our auditors continues to be good.
27. Generally this Council is well placed to respond to the challenges that it faces, however the reports highlight the difficult environment in which we work and the need to maintain our focus on integrating financial and service planning to enable the Council to face the challenges ahead.

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The Audit Plan for Ashford Borough Council

Year ended 31 March 2014

February 2014

Andy Mack

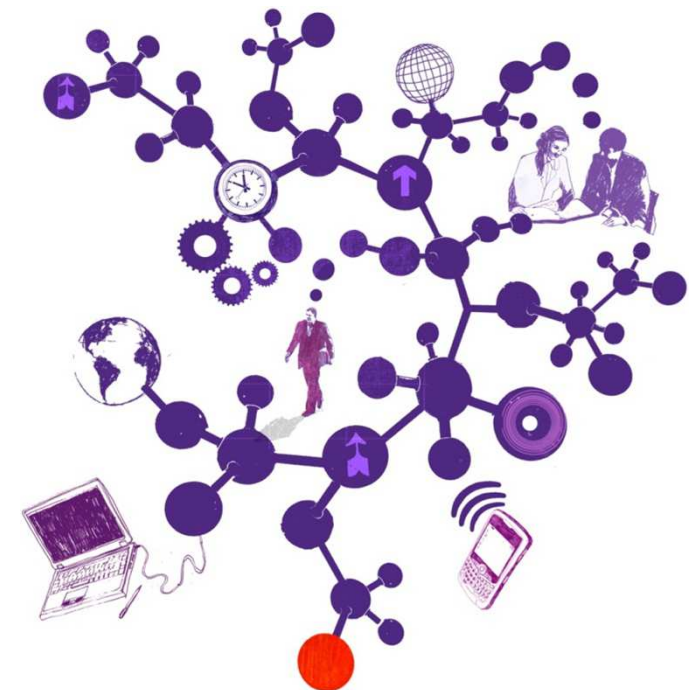
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

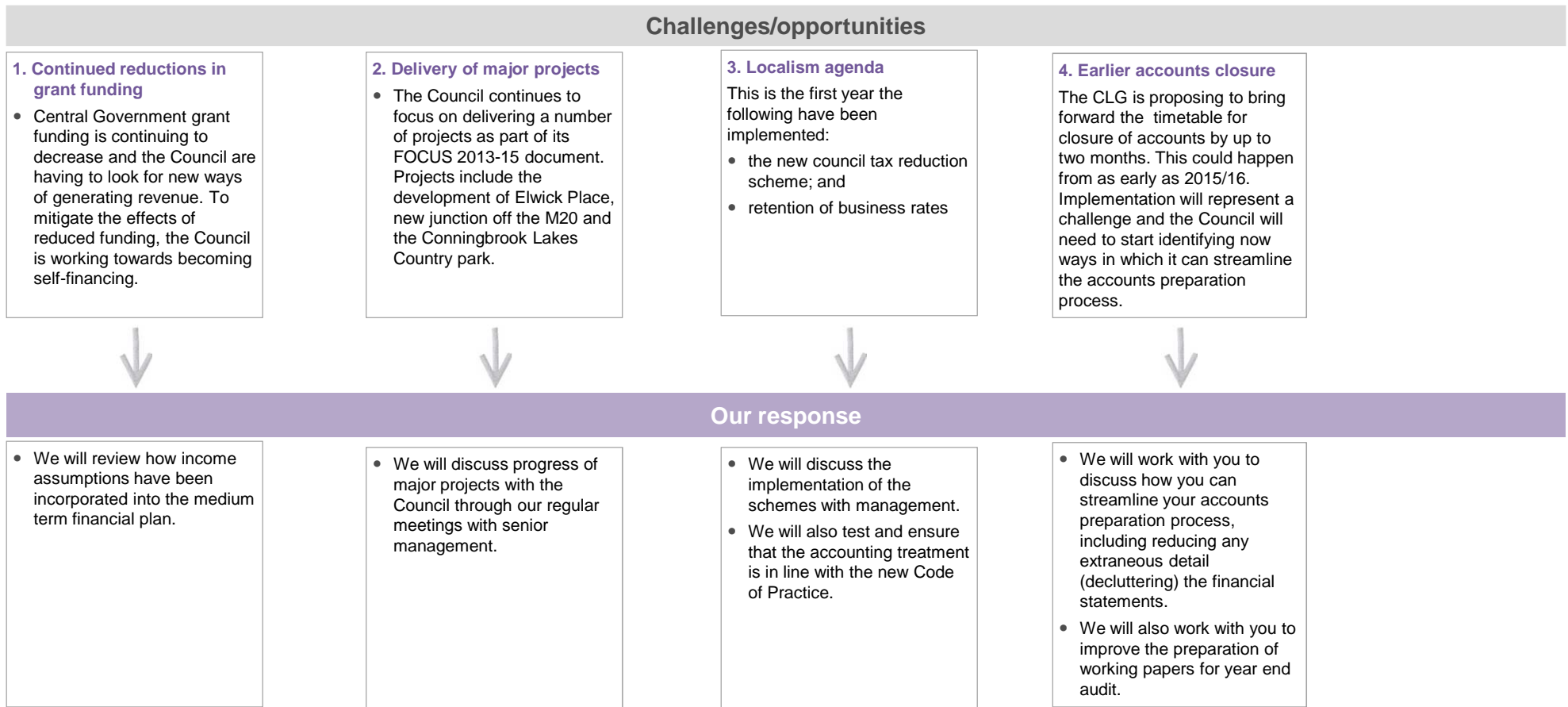
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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



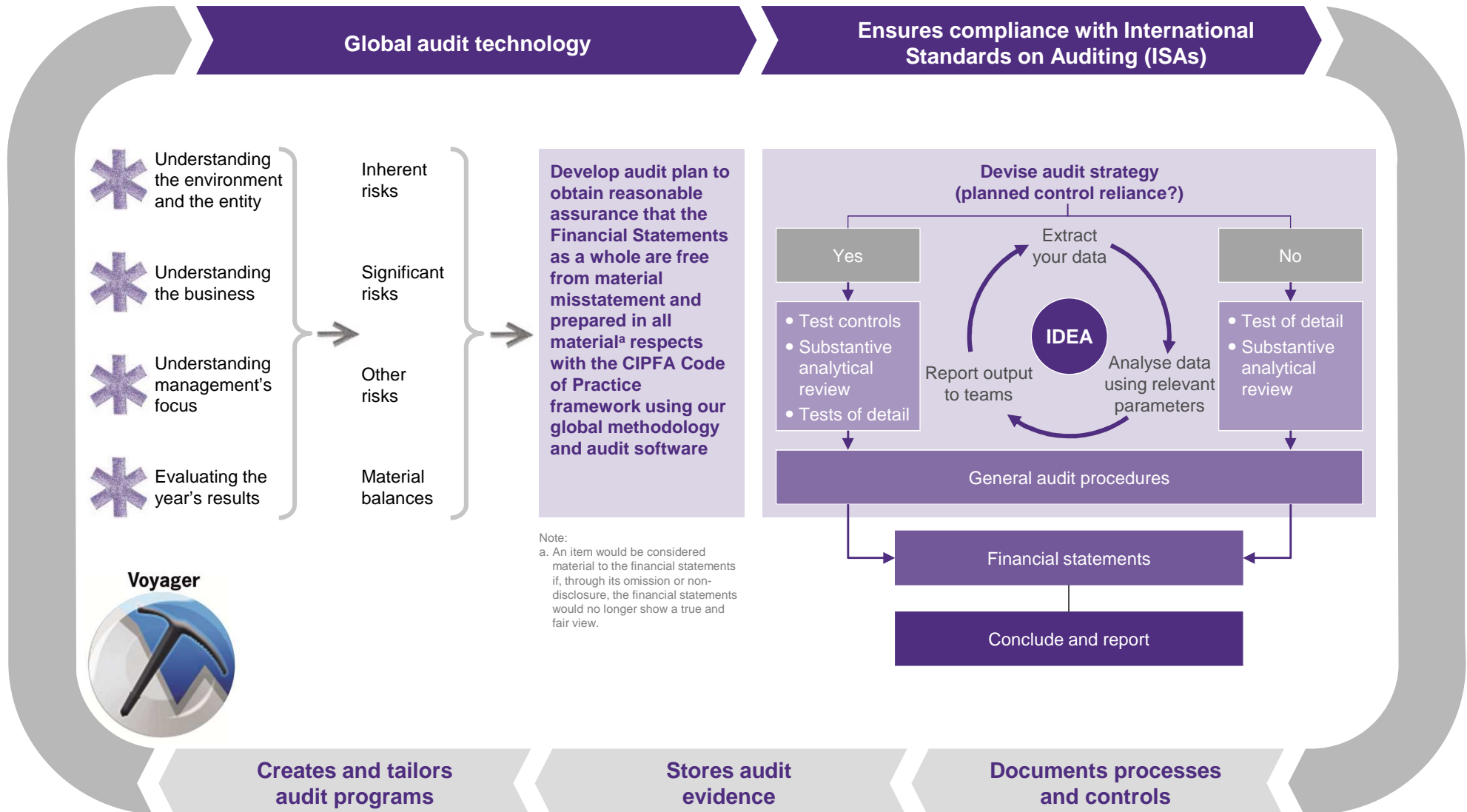
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing of material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Identification of controls and walkthrough of operating expenses system. 	<ul style="list-style-type: none"> Agreement of general ledger to subsidiary accounts payable ledger and review control account reconciliations. Procedures to search for unrecorded liabilities Cut-off testing to ensure transactions recorded in correct accounting period.
Employee remuneration	<ul style="list-style-type: none"> - Employee remuneration accrual understated - Payroll tax obligations understated. 	<ul style="list-style-type: none"> Identification of controls and walkthrough of employee remuneration system. 	<ul style="list-style-type: none"> Agreement of general ledger to subsidiary payroll ledger Monthly trend analysis Testing to confirm the completeness of payroll transactions and appropriate cut off
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> Identification of controls and walkthrough of welfare expenditure system. 	<ul style="list-style-type: none"> Reconcile figures in accounts to HB claim form. Completion of core testing for certification of the housing benefit scheme. For the Council Tax reduction scheme, we will reconcile figures to the supplementary system and will confirm accounting treatment is in line with the Code of Practice. Sample testing of council tax transactions with reductions applied.
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> Identification of controls and walkthrough of housing rents system. 	<ul style="list-style-type: none"> Agreement of housing rents system to the general ledger Agree general ledger to subsidiary rents ledger (if appropriate) Rental income cut-off tests Detailed analytical review and proof in total.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Review of the medium term financial plan including the assumptions made;
- review of 2013/14 financial performance; and
- review of arrangements for implementing new projects and the localism agenda

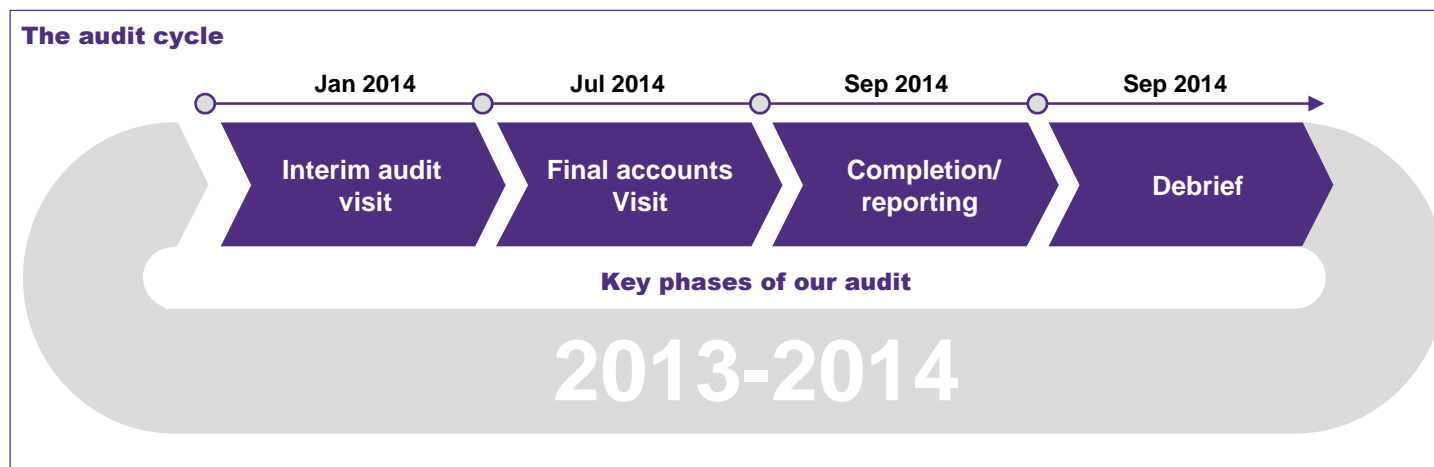
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Review of information technology controls	<p>Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. This also includes a follow up of any issues that were raised last year.</p>	<p>Results of this work will be included in our next update report.</p>
Journal entry controls	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and evaluate whether there are any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will be undertaking substantive testing of in year journal transactions for the year as part of our final accounts testing. We will extract and consider 'unusual' entries for further review.</p>	<p>Results of this work will be included in our next update report.</p>

Key dates



Date	Activity
Dec 2013	Planning
Jan 2014	Interim site visit
Mar 2014	Presentation of audit plan to Audit Committee
Jul 2014	Year end fieldwork
Aug 2014	Audit findings clearance meeting with Finance
Sep 2014	Report audit findings to those charged with governance (Audit Committee)
Sep 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	79,515
Grant certification	12,600
Total fees (excluding VAT)	92,155

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Audit Committee Update for Ashford Borough Council

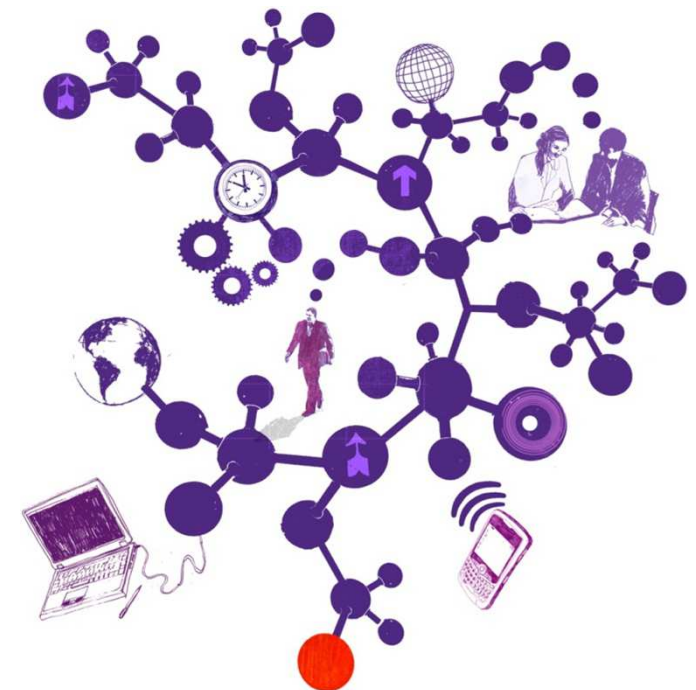
Year ended 31 March 2014

February 2014

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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 February 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the District Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	March 2014	Yes	See included separately on this agenda
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the District Council 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. 	March 2014	Yes	This is reported within our audit plan, separately included on this agenda. There are no significant matters arising from our interim accounts audit work completed to date.
<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	<p>Our audit plan sets out the risks of material misstatement that we have identified during planning. It also sets out the work undertaken and planned in order to address them.</p> <p>We will report in full to the September committee within our Audit Findings Report.</p>

Progress at February 2014

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	<p>As set out in the audit plan, we have undertaken an initial risk assessment to identify areas of risk to our VfM conclusion.</p> <p>The results will be reported to the September committee meeting.</p>
<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 benefit grant claim will be completed before the end of September and used to support our audit opinion on the financial statements.
<p>Other activity undertaken Since our last update:</p> <ul style="list-style-type: none"> • Finance members have attended our accounts workshop, run with CIPFA/FAN • We have provided support on specific accounting and legal queries 	-	-	We would always be happy to discuss any other ways in which Grant Thornton can support the Trust.

Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Issues to consider/challenge questions:

How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

Joint Health and Social Care Plans to be in place by 4th April

Local government guidance

Better Care Fund

In the June 2013 Spending Round the Government announced the prospective implementation of the Better Care Fund (formerly the integration transformation fund). The key aim is to ensure a transformation in integrated health and social care through local single pooled budget arrangements. Pooled budget arrangements are formally underpinned by Section 75 of the NHS Act 2006.

Key issues

- £3.8 billion for funding will be available from 2015/16, largely through a top slice of existing Clinical Commissioning Group (CCG) budgets;
- Local Authorities with Adult Social Services, CCGs and NHS Trusts will need to collaborate through a single pooled budget arrangement to support the delivery of health and social care services in their designated local areas;
- finalised joint health and social care plans must be in place setting out how pooled budgets will be spent – draft plans must be formally signed off by each statutory Health and Well Being Board and submitted to NHS England area teams by 14 February, with a 4 April 2014 deadline for submission of finalised plans

Issues to consider/challenge questions:

- Is the local Health and Wellbeing Board on track to finalise and sign off the joint health and social care plan for submission to the NHS England area team?
- Has the size of the pooled budget been clarified?
- Is the Authority collaborating with its partner bodies to work through funding and delivery arrangements?
- Have roles and responsibilities been defined and understood for the Authority and its partner CCGs, NHS Trusts and the Health and Wellbeing Board?

79% of Councils anticipate Tipping Point soon

Grant Thornton

2016 tipping point? Challenging the current

This report http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Challenge questions

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks. Has the Finance Manager completed the checklist and reported it to the Audit Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Head of Finance Manager reviewed these case studies and considered whether there is scope to adopt these?

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

Welfare reforms – what you think of it so far?

Grant Thornton

Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Has the Head of Benefits kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

Revaluing your assets – clarification of accounting guidance

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

Challenge question

Has your Finance Manager consulted you on the programme of valuations and the proposals for disclosing information about classes of assets?

Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
 - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
 - to recognise a provision where a reliable estimate can be made
 - to disclose a contingent liability where a reliable estimate cannot be made
 - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is your authority confident of obtaining the information it needs from the VOA?
- Has your authority recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has your authority provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your authority planning to revisit its provision and contingent liability before the audit opinion is issued?

Accounting for pensions

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively. The main changes we expect to see are a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES) and more detailed disclosures. We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

Challenge questions:

- Is your local authority confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If your authority is considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

Changes to the public services pension scheme

Accounting and audit issues

Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

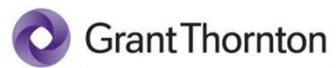
- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

Challenge questions:

- Is the authority aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the authority taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the authority liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



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