



# Audit Committee Update for Torbay Council

**Year end 31 March 2013**

20 March 2013

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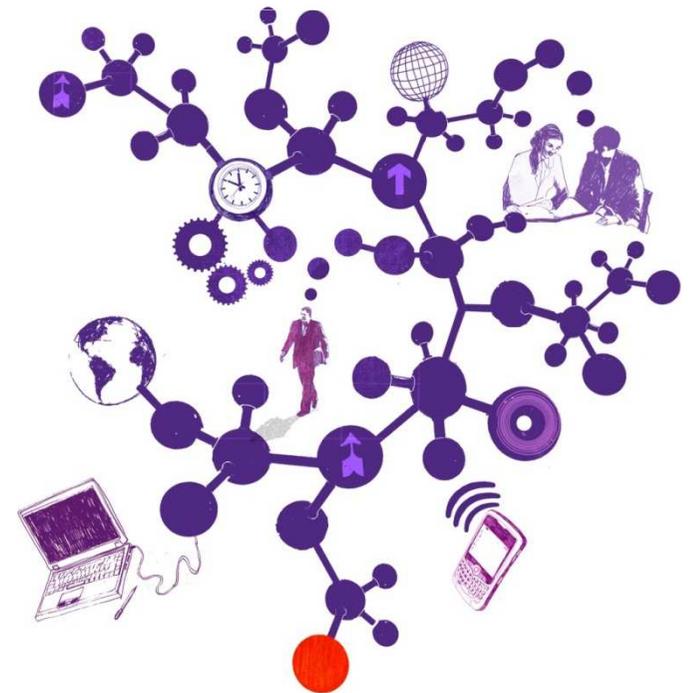
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# Introduction

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; and
- 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](http://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 2012', '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 20 March 2013

Work	Planned date	Complete?	Comments
<p><b>2012-13 Audit Plan</b> We are required to issue an audit plan to the Council setting out our proposed approach in order to give an opinion on the Councils 2012-13 financial statements.</p>	March 2013	On-going	Our 2012-13 Audit Plan is currently being drafted and will be presented at the June Audit Committee.
<p><b>Interim accounts audit</b> Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• update understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	March 2013	On-going	Our interim accounts audit is currently on-going and our findings will be reported in our Audit Plan.
<p><b>2012-13 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements;</li> <li>• Whole of Government Accounts (WGA) return; and</li> <li>• proposed opinion on the Council 's accounts</li> </ul>	July – August 2013	N/A	Planning meetings have been held with the Council's finance team and a timetable has been agreed for the audit of the financial statements.

## Progress at 20 March 2012

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises of assessing whether the Council has proper arrangements in place for:-</p> <ul style="list-style-type: none"> <li>• securing financial resilience; and</li> <li>• challenging how it secures economy, efficiency and effectiveness.</li> </ul>	<p>Initial risk assessment – January 2013</p> <p>Detailed assessment – February/March 2013</p>	<p>Yes</p> <p>On-going</p>	<p>Initial risk assessment completed. No specific risks were identified that would result in separate pieces of work being required.</p> <p>Our detailed risk assessment is currently on-going. Our findings will be reported back to the Audit Committee.</p>

# Emerging issues and developments

## Accounting and audit issues

### Implications of the Local Government Finance Act 2012

The Local Government Finance Act 2012 has now been given Royal Assent. The Act has amendments in two areas of local government finance:

- Council tax support will now be localised and local authorities will be responsible for implementing their own council tax reduction schemes.
- 50% of the non domestic rates collected locally will be retained by the local authority. Billing authorities will pay over a share to central government and proportionate shares to their precepting bodies.

In December 2012, CIPFA issued a [consultation](#) on proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom for the implications of business rates retention schemes. In summary, the changes are to account for business rates in a similar way to council tax. The Comprehensive Income and Expenditure Statement will need to show amounts collectible by each authority. Debtors/creditors will be recognised when these amounts do not match the actual amounts paid by each billing authority over to preceptors and government. The Collection Fund adjustment account will be used for accounting for the differences. Top-ups and tariffs and the safety net and levy will be recognised as grant income or expenditure. Individual authorities in a pool will need to account for their share of income and expenditure debtors/creditors as stipulated in any agreement made by individual authorities in the pool.

Challenge questions:

- **Do you know your key risks?**
- **Have officers ensured the financial impact is fed into medium term financial plans?**
- **Have officers undertaken modelling of future business rates growth?**
- **Have officers given due consideration to pooling?**
- **Have officers considered the possible impact on council tax collection rates if they do reduce benefit entitlement in line with the funding reduction?**
- **Has your Executive Head Finance reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?**

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# Emerging issues and developments

## Accounting and audit issues

### Accounting for joint arrangements

IAS 31 classified joint ventures into jointly controlled operations, jointly controlled assets and jointly controlled entities. Under IFRS 11 both jointly controlled operations and jointly controlled assets are classified as joint operations.

Under IAS 31 members of jointly controlled entities were permitted to use proportionate consolidation or equity accounting to account for their interests in the jointly controlled entity's assets, liabilities, revenue and expenses. Under IFRS 11 the ability to use proportional consolidation for interests in joint ventures is no longer permitted. Equity accounting is required.

Last year, Grant Thornton published a flyer '[Accounting for joint arrangements by local authorities under IFRS 11](#)' to highlight the changes being introduced by IFRS 11 'Joint arrangements' compared to IAS 31 'Interests in joint ventures' for 2013/14.

Challenge question:

- **Have officers considered the impact of these new arrangements?**
- **Are you clear on the issues arising for the Council ?**

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# Emerging issues and developments

## Accounting and audit issues

### Assets transferring to academy schools

There is ongoing debate as to whether assets relating to schools that have been granted academy status should be:

- impaired to nil at the date of the granting of a transfer order on the basis that the assets will be disposed of for nil value or
- not impaired as the assets are still being used and so should be shown at the balance sheet date at full existing use value.

Our view is that this is a matter for judgement and the financial statements should set out clearly:

- the policy followed by the authority
- details of material assets that are to be transferred out of local authority control.

Where an academy school's assets are subject to a PFI arrangement, the authority may have a potential onerous contract where there is a shortfall in funding ie. where an authority has a PFI contractual agreement to pay out more than it expects to receive back in PFI credits and reimbursement from an academy. If an authority is facing a shortfall between its contractual obligations and the amounts it expects to receive to fund these obligations, the authority should consider whether the contract is onerous. In considering whether or not there is an onerous contract, the authority would need to consider the service it receives.

Challenge questions:

- **Has your Executive Head Finance considered how to account for assets relating to schools that have been granted academy status?**
- **Has your Executive Head Finance considered whether or not there is an onerous contract for PFI contracts relating to academy schools?**
- **Has you Executive Head Finance discussed these issues with external audit?**

# Emerging issues and developments

## Accounting and audit issues

### Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:

- a current obligation as a result of a past event;
- a transfer of economic benefit is probable; and
- a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

- Mutual Municipal Insurance – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements.
- Land restoration costs – where a local authority owns a closed landfill site and is responsible for aftercare costs, we would expect the authority to recognise a provision for total future costs. These landfill aftercare costs should also be capitalised and depreciated under IAS 16 'Property, Plant and Equipment' so there is no immediate impact on the General Fund.
- Equal pay - in October 2012 the supreme court ruled that more than 170 former Birmingham City Council employees can make equal pay claims. This effectively extends the time workers have to bring equal pay compensation claims from six months to six years. We would expect local authorities to consider whether they have received any additional claims and, where the criteria set out in IAS 37 have been met, recognise a provision.
- Redundancy costs –the recognition point for termination benefits fall under IAS 19 'Employee Benefits'. This is generally earlier than the IAS 37 recognition criteria for restructuring which requires that a valid expectation has been raised in those affected. The requirement in IAS 19 is that the entity is 'demonstrably committed'.

Challenge question:

- **Has your Executive Head Finance considered the need for additional provisions for the above matters?**

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# Emerging issues and developments

## Grant Thornton

### 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities '

In December 2012, Grant Thornton published '[Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities](#)'. This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. The report provides a summary of the key issues, trends and good practice emerging from the review.

Challenge questions:

- **Have you considered the findings of the report?**
- **Are there any issues that relate to your authority and what action are you going to take?**

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# Emerging issues and developments

## Local government guidance

### 'Auditing the Accounts 2011/12' report

In December, the Audit Commission published ['Auditing the Accounts 2011/12'](#). The report summarises the results of auditors' work on the financial statements of both principal and small bodies. The key finding in the report is that bodies have improved the quality and timeliness of their financial reporting in 2011/12.

Challenge questions:

- **Has your Executive Head Finance identified the key risks for the authority in preparing the 2012/13 financial statements?**
- **Has your Executive Head Finance produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?**
- **Has this been discussed and agreed with the External Auditors?**

### 'Striking a balance: improving councils' decision making on reserves'

In December, the Audit Commission published ['Striking a balance: improving councils' decision making on reserves.'](#) The report covers the findings from research undertaken by the Audit Commission on the level of reserves that councils hold and the decisions councils make on them.

The report encourages English councils to focus more attention on their reserves. It suggests that management should be providing more comprehensive information on reserves to elected members and councils should provide greater clarity on the reasons for holding reserves. The report includes questions for elected members that will help them in their decision making and scrutiny roles.

Challenge questions:

- **Are your officers providing you with the right information about reserves?**
- **Have you considered the findings of the report and identified where actions are required?**

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# Emerging issues and developments

## Local government guidance

### 'Tough Times: Councils' financial health in challenging times'

In November, the Audit Commission published '[Tough times 2012: Councils' financial health in challenging times](#).' This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils.

The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

Challenge question:

- **Have you considered the findings of the report and any actions required?**

### 'Protecting the public purse 2012'

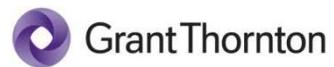
In November, the Audit Commission published '[Protecting the public purse 2012: Fighting fraud against local government](#)'. The report provides the results of the Audit Commission's annual survey of English local government bodies. It finds that local government bodies are targeting their investigative resources more efficiently and effectively. Local government bodies detected more than 124,000 cases of fraud in 2011/12 totalling £179m. It also reports that new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report includes a checklist for those charged with governance to use to review their counter-fraud arrangements.

Challenge questions:

- **Have you considered the findings of the report?**
- **Are there any issues that could relate to your authority and how are these being dealt with?**
- **Have you reviewed your existing arrangements for tackling fraud?**

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



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