



Audit Committee Update for Mid Devon District Council

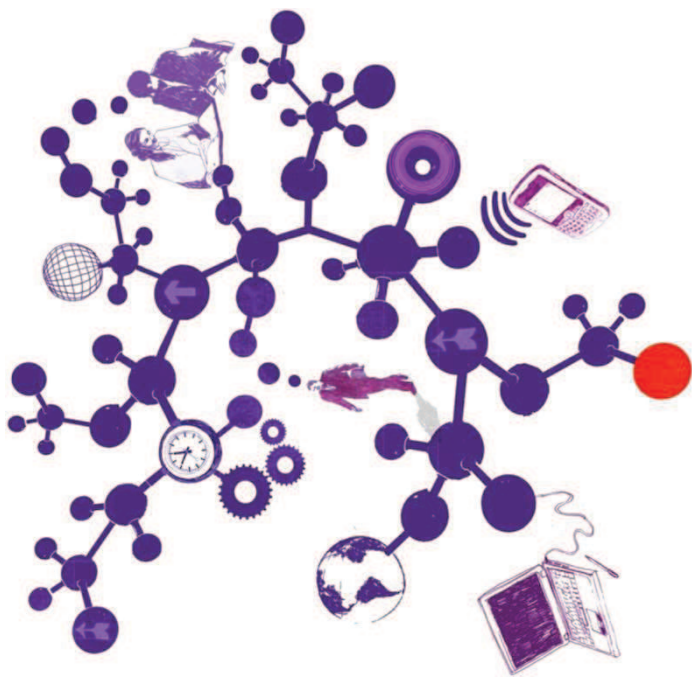
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

2012/13 year ended 31 March 2013
19th March 2013

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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 your business 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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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 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 19th March 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>	19 March 2013	Yes	<ul style="list-style-type: none"> The Accounts Audit Plan is on the agenda for this meeting.
<p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> updated review of the Council's control environment update 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. 	1 February to 8 March 2013	Yes	<ul style="list-style-type: none"> Interim accounts work is now complete. This work underpins the audit plan presented at this meeting.
<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 Council's accounts proposed Value for Money conclusion. 	15 July 2013 to 9 August 2013	No	<ul style="list-style-type: none"> Our Annual Governance Report and our audit opinion will be given at the 24 September Audit Committee meeting.

Progress at 19th March 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 is focused on the arrangements for:</p> <ul style="list-style-type: none"> • securing financial resilience; and • prioritising resources within tighter budgets. <p>We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion.</p>	January 2013 to 24 September 2013	No	<ul style="list-style-type: none"> • We have undertaken our initial risk assessment and have started work on a preliminary review of the Council's arrangements. • We identified Financial Resilience as a risk for the Council.
<p>Other areas of work</p> <p>Grant claims and certification.</p> <p>We anticipate that the only claims that will require certification will be:</p> <ul style="list-style-type: none"> • Housing benefit and council tax subsidy for 2012/13 • National non-domestic rates return 	June 2013 to 30 November 2013	No	We will commence our certification work alongside the work on the Council's financial statements.

Findings as at 19th March 2013

Finding	Priority and Recommendation	Management response	Implementation date
<p>Value for Money (VfM) conclusion</p> <p>Risk management</p> <ul style="list-style-type: none"> • Risk management is not effectively embedded throughout the Council. • 2 of the 3 business plans reviewed did not include consideration of the risks to that business sector. • There has been no quarterly reporting of key business risks to Cabinet, Scrutiny Committee, PDGs and the Audit Committee between the period 01/04/12 and 20/02/13. 	<p>Medium</p> <ul style="list-style-type: none"> • All business plans should include risk relating to the service. • Significant business risks should be reported to members quarterly in line with the councils Risk Management Strategy. 	<p>Agreed,</p> <ul style="list-style-type: none"> • All new business plans will include consideration of the risks to that business sector. • Quarterly reporting will be implemented for the next round of Council Committees 	<p>Ongoing</p>
<p>Interim accounts audit</p> <p>Employee remuneration</p> <ul style="list-style-type: none"> • Significant weaknesses were identified in the control environment for this system. There are no segregation of duty controls in place, all processes within the system are operated by the Payroll manager with no review. 	<p>High</p> <ul style="list-style-type: none"> • Controls to ensure segregation of duties should be establish within the payroll system 	<p>Agreed. The new integrated payroll/HR system is currently being implemented</p>	<p>1 April 2013</p>
<p>Operating expenses</p> <ul style="list-style-type: none"> • Bank reconciliations were not completed in a timely manner within the current financial year, therefore we are not able to place reliance on the control environment. 	<p>High</p> <ul style="list-style-type: none"> • Bank reconciliations should be completed promptly and reviewed by senior finance staff. 	<p>Accepted. The bank reconciliation will be up to date before preparation of the Financial Statements.</p>	<p>30 April 2013</p>
<p>Journal entry controls</p> <ul style="list-style-type: none"> • No authorisation of journals is undertaken. Management place reliance on budget monitoring processes to address this lack of controls. 	<p>Medium</p> <ul style="list-style-type: none"> • All journals over a pre-set limit should be reviewed. 	<p>Disagree</p>	<p>n/a</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 Head of Finance reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?

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.
- 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 Head of Finance considered the need for additional provisions for the above matters?

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?

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 Head of Finance identified the key risks for the authority in preparing the 2012/13 financial statements?
- Has your Head of 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?

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?

Emerging issues and developments

Local government guidance

Broadband Initiative – Rural Broadband Fund

The Government has committed to delivering superfast broadband (24Mbps) accessibility to 90% of UK premises, and a minimum of 2 mbps to the remaining 10% of premises. The Department of Culture Media and Sport (DCMS) has entered into a Framework Agreement with two Suppliers, BT and Fujitsu, for the purposes of delivering this broadband infrastructure.

Local authorities are responsible for utilising the Framework Agreement to procure superfast broadband infrastructure for their areas. DCMS has grouped local authorities in England into circa 40 regions which are undertaking call-off procurements with BT and Fujitsu on a phased basis. Local authorities are therefore at different stages of the process (i.e. pre-procurement, in procurement, or at the award stage). The first local authorities to undertake the call-off process have recently awarded contracts to BT.

There are a number of important financial and commercial issues which local authorities will need to understand, investigate and take action in order to secure and demonstrate value for money. The main issues are:

- Procurement strategy
- Grant agreements
- Financial forecasts
- Milestone payments
- Phasing of roll-out
- Demonstrating value for money

Challenge questions:

- Are you happy that officers have identified the financial and commercial issues relating to the delivery of superfast broadband?
- Can officers demonstrate value for money has been achieved?

Grant Thornton has significant experience of advising the public sector on broadband procurements of this nature. Please talk to your audit manager if you would like more information.



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