

# Audit Committee Update for Kent County Council

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**Year ended 31 March 2013**

March 2013

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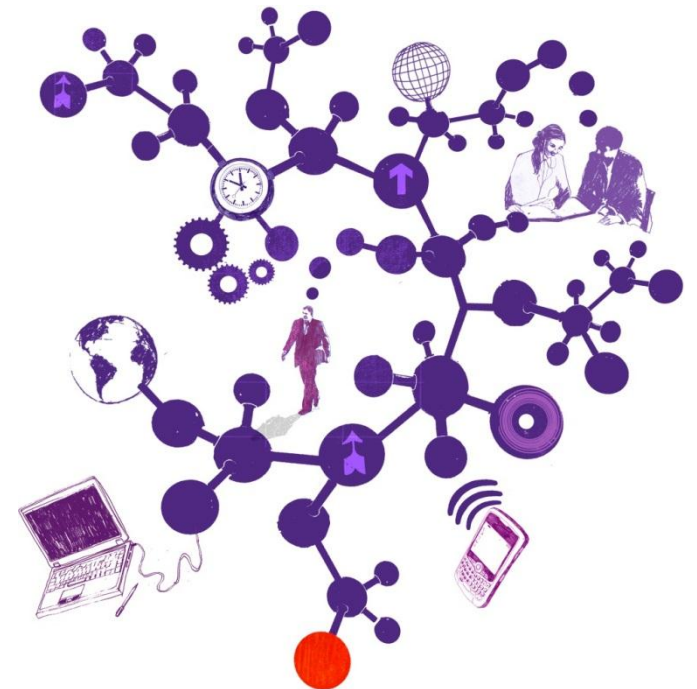
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# Introduction

This paper provides the Governance and 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 Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance and 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 2013', 'The developing internal audit agenda', 'Preparing for the future', and '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 12 March 2013

Work	Planned date	Complete?	Comments
<p><b>2012-13 Audit Fee Letter</b> We prepare a fee letter annually setting out the audit and grants certification work fee for the year.</p>	30 November 2012	Yes	We issued the 2012/13 audit fee letter to management on 12 November 2012 and presented it to this committee in December 2012.
<p><b>2012-13 Accounts Audit Plan</b> 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>	April 2013	Yes	We have agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts with officers. Both plans are included as separate items on the April committee meeting agenda.
<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>	February and April 2013	In progress	<p>The results of all interim work completed to date are set out in our accounts audit plan. There are no significant weaknesses identified in the control environment in the work undertaken at the February audit visit.</p> <p>We have monthly meetings with Internal Audit to discuss potential audit issues and fraud investigations. There are no issues arising that would impact on our audit opinion at this date.</p> <p>We will report the findings of all further work in our regular Governance and Audit Committee updates.</p>

## Progress at 12 March 2013 (continued)

Work	Planned date	Complete?	Comments
<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>• proposed opinion on the Council's accounts; and</li> <li>• proposed Value for Money conclusion.</li> </ul>	<p>Accounts audit: 17 June - 5 July 2013</p> <p>Opinion and VFM conclusion: end July 2013</p>	No	<p>We have monthly meetings with the Head of Financial Management and Chief Accountant, and attend the monthly closedown champions meetings to ensure that potential accounting issues are identified early.</p> <p>We have sent an arrangements letter to officers, which clarifies the working papers we would expect the Council to produce to support its financial statements.</p>
<p><b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2012/13 VfM conclusion is based on the reporting criteria specified by the Audit Commission.</p> <p>The Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience</li> <li>• challenging how it secures economy, efficiency and effectiveness in its use of resources.</li> </ul> <p>Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.</p>		No	<p>We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan.</p> <p>The detailed VfM work, including the financial resilience review, will be completed by June 2013.</p> <p>We will report our findings in a separate Financial Resilience report, alongside our Audit Findings report in September 2013.</p>
<p><b>Whole of Government Accounts (WGA)</b> We are required to audit the Whole of Government Accounts return on behalf of the National Audit Office.</p>	August 2013	No	We will undertake the audit of the WGA return once the accounts audit is complete.

## Progress at 12 March 2013 (continued)

Work	Planned date	Complete?	Comments
<b>Other areas of work – grants certification</b> We will be required to certify the following grants and returns for the Council in 2012/13: <ul style="list-style-type: none"><li>• School Centred Initial Teacher Training grant; and</li><li>• Teachers' Pensions Return</li></ul>	To be confirmed when Certification Instructions are released	No	We will liaise with officers to agree dates for audit certification once claims are submitted for audit.

# 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 question:

- Do you know your key risks?



# Emerging issues and developments

## Accounting and audit issues

### CIPFA consultation on Service Reporting Code of Practice 2014/15: Adult Social Care Service Expenditure Analysis (England only)

In January, CIPFA issued a [consultation](#) on the proposed changes to the Adult Social Care Service Expenditure Analysis. The proposed changes are for a complete revision to the mandatory lines and these have been based on work done by the Health and Social Care Information Centre.

The closing date for responses is 28 February 2013.

Challenge question:

- Has your Council considered whether it wishes to respond to the consultation?

### 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:

- Are you clear on the issues arising for the Council?

# 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 question:

- Has the Council considered whether or not there is an onerous contract for PFI contracts relating to academy schools?

# 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.
- 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 the Council 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 question:

- Have you considered the findings of the report?

### **'Local Government governance review 2013 - Improving council performance: A slow burner'**

In February 2013, Grant Thornton published its second governance review of local government. The review examines the challenges that public sector faces around governance, both internally and externally, in light of sustained budgetary pressures and shifting government policy. It highlights steps that councils can take to ensure clear governance as they adapt to dramatic changes in the way services are funded and delivered. In addition, the report also emphasises the importance of people, culture and behaviour – including the tone from the top – in ensuring effective governance.

Challenge question:

- Have you considered the findings of the report?

# Emerging issues and developments

## Local government guidance

### '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 question:

- Have you considered the findings of the report and identified where actions are required by the Council?

### '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 question:

- Are there any issues that could relate to your authority and how are these being dealt with?

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

# 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 question:

- Are you happy that officers have identified the financial and commercial issues relating to the delivery of superfast broadband?

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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