

Audit Committee Update for North Hertfordshire DC

DRAFT

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.

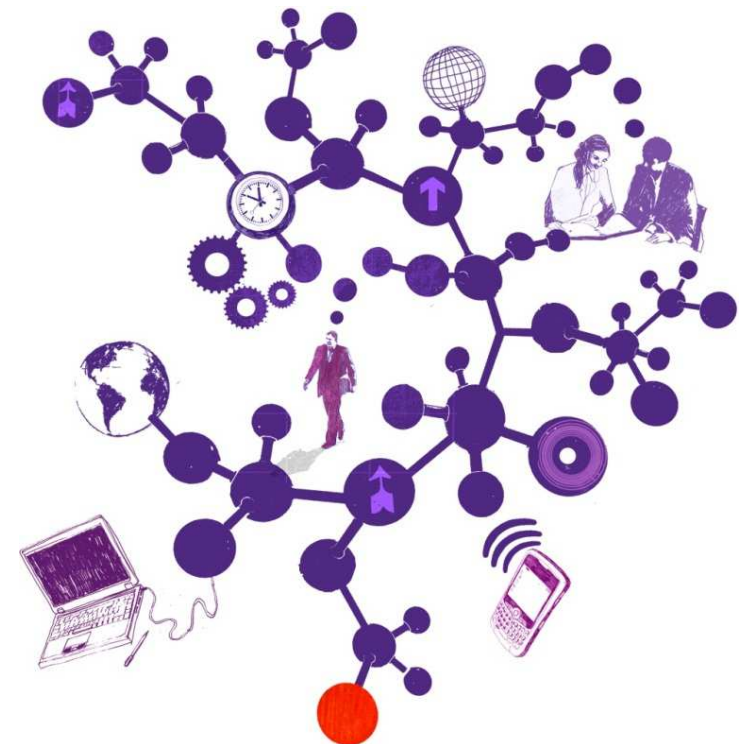
Financial year: 2012/13

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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 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>	The audit plan has been prepared for the 20 th March audit committee.		
<p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • updated review of the Council 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. 	<p>The interim audit took place from 25 February 2013 for one week.</p> <p>Work to support the value for money conclusion will be performed in March/April 2013.</p>		
<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 	We have agreed with finance that we commence the final audit on 1 st July 2013.		

Progress at 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 comprises:</p> <p>Assessing the arrangements the Council has in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:</p> <ul style="list-style-type: none"> • securing financial resilience; and • prioritising resources within tighter budgets. 	<p>March/April 2013</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 considered the possible impact on council tax collection rates if they do reduce benefit entitlement in line with the funding reduction?
- Has your Strategic Director Finance, Policy and Governance 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.
- 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 Strategic Director Finance, Policy and Governance 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?

Local Government Governance Review 2013: Improving Council Governance – A Slow Burner

The report is part of our wider analysis of UK governance practice and complements reviews on corporates in the FTSE 350, the NHS and charities. With this suite, we aim to help organisations improve their governance by learning from other sectors and their peers.

Effective and embedded governance frameworks will be essential to meeting these challenges and to ensuring councils progress effectively, with the support of all their stakeholders. Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur and it inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

We surveyed 64 local government leaders and analysed 153 council annual governance statements (AGSs) and explanatory forewords. In our research, and in structuring our review, we focused on both the public face of governance (the documents that councils publish, in print and online) and governance behind the scenes (as demonstrated by council people and processes). Both are essential to effective governance.

We found examples of good council practice in both public and non-public facing governance and, to help councils raise the bar, we have cited noteworthy activity in our report. However, we did not find an entirely exemplary set of governance documents or approach to governance in any one organisation.

Emerging issues and developments

Grant Thornton

Our findings include:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council AGS follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises. This generates inefficiency in gathering assurances, makes it difficult for stakeholders to understand the ultimate purpose of these processes and diminishes engagement
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- councils often do not give sufficient focus on addressing cultural issues when implementing change
- despite members' pivotal role in setting the tone, they do not make the top four in council leaders' perceived 'top posts for driving governance'. And one third of respondents admit that they don't have robust arrangements for developing members
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

We have developed tools which allows us to benchmark your AGS and explanatory foreword against your peers and we would be happy to produce a benchmarking pack for you.

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.

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 Strategic Director Finance, Policy and Governance identified the key risks for the authority in preparing the 2012/13 financial statements?
- Has your Strategic Director Finance, Policy and Governance 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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