Audit Committee Update for Halton BC

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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.

Year ended 31 March 2013

12 February 2013

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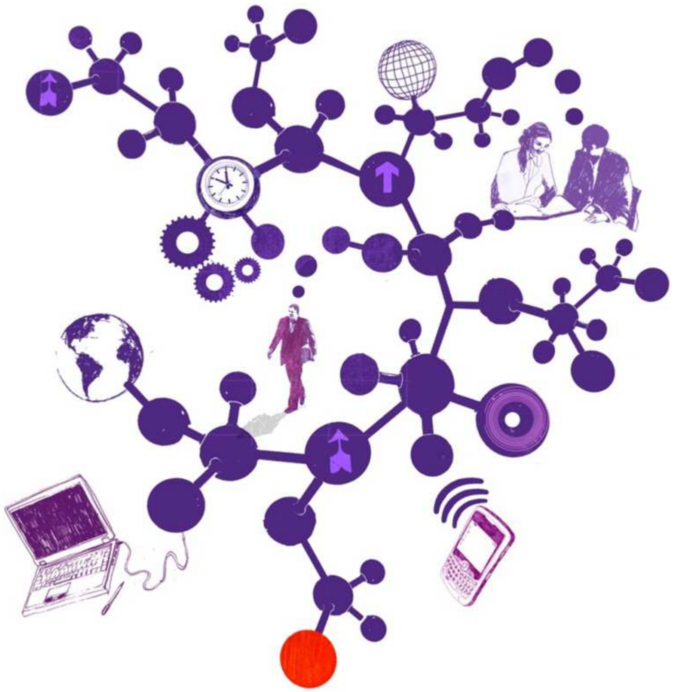

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Introduction

This paper provides the Business Efficiency Board, as the Council's 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 Unitary Council
- includes a number of challenge questions in respect of these emerging issues which the Board may wish to consider.

Members of the Business Efficiency Board 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 – 'Towards a tipping point? Summary findings from our second year of financial health checks of English local authorities', '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 12 February 2013

Work	Planned date	Complete?	Comments
2012-13 fee letter We are required to issue a fee letter to the Council setting out the Audit Commission's scale fee for the year.	30 November 2012	Yes	We issued the 2012-13 fee letter on 13 November 2013. The fee letter was due to be presented to the January 2013 Business Efficiency Board. The January meeting was cancelled and the fee letter will be presented to tonight's Business Efficiency Board.
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.	March 2013	On track	Our planning work is in progress at the time of writing this update report. Our planning will inform our approach to the Council's 2012-13 audit and should be complete by the end of February 2013.
Interim accounts audit Our interim fieldwork visit will include the following: • 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 • planning and early work on the proposed Value for Money conclusion.	February to June 2013	On track	Our interim fieldwork will start in late February and will finish in June 2013, prior to the start of the financial statements audit. We plan to undertake some early work on the accounting treatment of Mersey Gateway development costs. This is a significant risk area for the Council and it is not covered by our scale fee. We have agreed an additional fee of £3,728 with officers to cover this piece of work.
2012-13 final accounts audit Including: • audit of the 2012-13 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion.	July to September 2013	On track	Our final accounts audit is due to start on 1 July 2013. On 6 February members of the Council's finance team attended a local government accounts workshop run by Grant Thornton and CIPFA. We are due to meet with officers on 14 February to enable early discussion on the issues identified at the workshop.

Progress at 12 February 2013

Work	Planned date	Complete?	Comments
Value for Money (VFM) conclusion The scope of our work to inform the 2012/13 VFM conclusion comprises: • A review of your arrangements to ensure financial resilience • A review of your arrangements to secure economy, efficiency and effectiveness in the use of resources • A review of the affordability, procurement and risk management arrangements associated with the Mersey Gateway Project.	February to August 2013	On track	As at February 2013 we have completed some initial planning on the Council's value for money arrangements. We will update this initial assessment as the audit progresses with the expectation of providing officers with an initial view on the proposed VFM conclusion and draft findings in early July 2013. This year we will produce a separate report on our assessment of the Council's financial resilience. This will incorporate our audit findings on the Council's arrangements for financial governance, financial planning and financial control. It will also include the Council's performance on key financial ratios. We will produce this report in July following receipt of the Council's draft financial statements. The most significant value for money risk for the Council is the Mersey Gateway project. We have drafted a project brief outlining the work we need to undertake on Mersey Gateway to support our 2012-13 VFM conclusion at the Council. The fee for this work is £45,694. This is not included in the scale fee.
Other areas of work We will certify your 2012-13 government grant claims and returns. We understand the following claims will require an audit certificate in 2012-13: • Housing and council tax benefit • National non-domestic rates • Teachers' superannuation • Department of Transport s31	July to October 2013	On Track	We are currently finalising the detail of the Council's claims and returns programme with the grant claims co-ordinator. We will liaise with the co-ordinator about the timing of our work to ensure we meet the required government department deadlines.

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 Divisional Manager Finance reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?

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 questions:
- Has your Divisional Manager Finance reviewed the proposed amendments and assessed the potential impact?
- 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:
- Have officers considered the impact of these new arrangements?
- 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 questions:
- Has your Divisional Manager Finance considered how to account for assets relating to schools that have been granted academy status?
- Has your Divisional Manager Finance considered whether or not there is an onerous contract for PFI contracts relating to academy schools?
- Has your Divisional Manager 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 (MMI) – 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.

Challenge question:

- Your 2011/12 financial statements included a contingent liability for MMI and a provision and a contingent liability for equal pay. Has your Divisional Manager Finance re-considered these contingent liabilities and 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 Council 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 Divisional Manager Finance identified the key risks for the Council in preparing the 2012/13 financial statements?
- Has your Divisional Manager 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?

'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?