



Governance Committee Update for Dover District Council

Year ended 31 March 2013

28 February 2013

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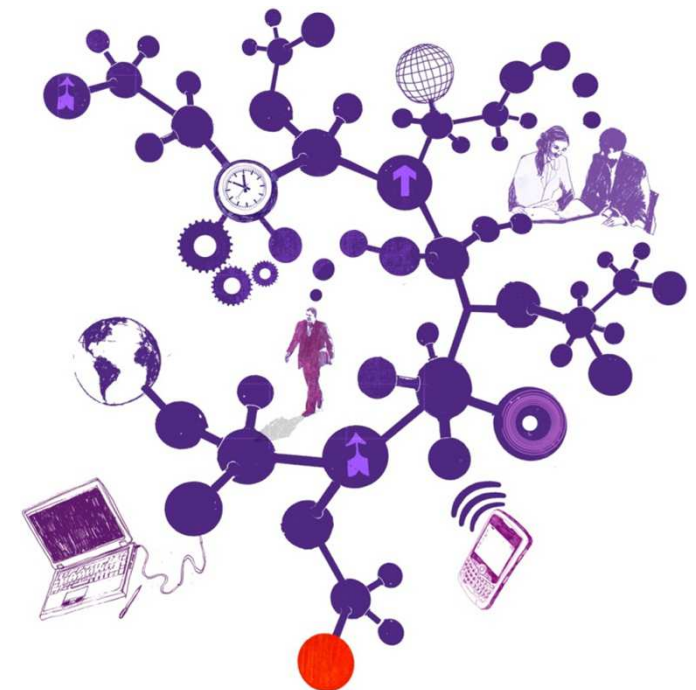
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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 Governance 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 local authority
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance 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 28 February 2013

Work	Planned date	Complete?	Comments
2012-13 Fee letter We prepare a fee letter annually, setting out the fee for the audit and grant certification work for the year.	30 November 2012	Yes	We issued our 2012/13 fee letter on 12 November 2012 and presented it at the last Governance Committee meeting.
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.	28 February 2013	Yes	We have agreed the accounts audit plan with officers and it is a separate item on today's agenda.
Interim accounts audit Our interim fieldwork visits include the following: <ul style="list-style-type: none"> • review of the Council's control environment • documentation and walkthrough of financial systems • review of Internal Audit and their reports on core financial systems • early substantive testing 	Ongoing w/c 4 March 2013 w/c 28 February 2013 To be agreed	In progress No No No	We have started to review the Council's control environment and have received initial responses from officers. Further work will be carried out on IT controls during subsequent interim visits. We will be carrying out our first interim visit on site from 4 March 2013. During the visit we will document the Council's financial systems and carry out the required walkthroughs. The results of all interim work completed to date are set out in our accounts audit plan. We will report the findings of all further work in our regular Governance Committee updates.
2012-13 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • Whole of Government accounts review 	22 July- 9 August 2013 To be confirmed	No No	We held an initial liaison meeting with officers in January to discuss emerging accounts issues and agree the dates of our final accounts audit visit. 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.

Progress at 28 February 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 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"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources. <p>Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.</p>	w/c 8 April 2013	No	<p>We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan.</p> <p>Work is ongoing. The majority of our financial resilience review work is scheduled for completion in April 2013. Work will be concluded during the year end final accounts audit.</p> <p>We will report our findings in a separate Financial Resilience report alongside our Audit Findings report in September 2013.</p>
<p>Other areas of work – grant certification</p> <p>We will be required to certify the following grants for the Council in 2012/13:</p> <ul style="list-style-type: none"> • Housing and council tax benefit • Local non domestic rates • Pooling of housing capital receipts (if value of claim greater than £500,000) 	Dates for individual grants yet to be agreed. We will carry out the majority of the certification work before the end of September 2013	No	<p>Dates of grant certification work are currently being discussed with officers. These will be scheduled to ensure compliance with all grant certification deadlines.</p> <p>The housing and council tax benefit grant is the only grant where we need to carry out a substantial amount of work. All initial testing on the claim will be completed before the end of September and used to support our audit opinion on the financial statements.</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:

- 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?
- Has your Director of Finance, Housing and Communities 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. Last year you included a contingent liability in your financial statements. You will need to reconsider the treatment of this item in 2012/13.
- 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 Financial Services considered the need for additional provisions for the above matters?

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 on the accounting treatment of the ALMO and other joint arrangements?

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?

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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 improved the quality and timeliness of their financial reporting in 2011/12.

Challenge questions:

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

'Protecting the public purse 2012'

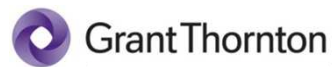
In November, the Audit Commission published '[Protecting the public purse 2012: Fighting fraud against local government](#)'. The report provides the results of the Audit Commission's annual survey of English local government bodies. It finds that local government bodies are targeting their investigative 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 Council 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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