

# Audit Committee Update for Cheltenham Borough 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.

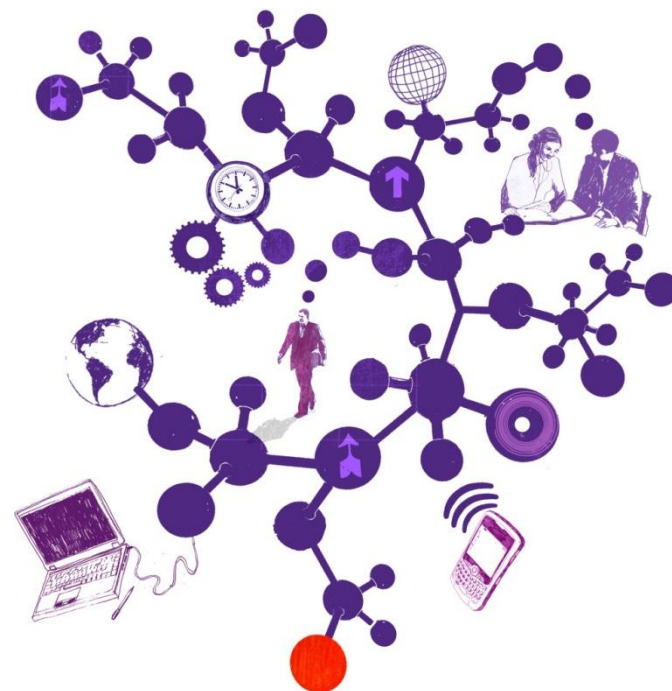
**Year ended 31 March 2013**

8 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 Borough 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](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',
- 'Surviving the storm: how resilient are local authorities?',
- 'Towards a tipping point?: Summary findings from our second year of financial health checks of English 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 8 March 2013

Work	Planned date	Complete?	Comments
<b>2012-13 Accounts Audit Plan</b> We will 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.	12 March 2013	Yes	This will be taken to the Audit Committee on 20 March 2013
<b>Interim accounts audit</b> Our interim fieldwork visit will include: <ul style="list-style-type: none"> <li>• a review of the Council's control environment;</li> <li>• an update of our understanding of the key financial systems;</li> <li>• a review of Internal Audit reports on core financial systems;</li> <li>• early work on any emerging accounting issues;</li> <li>• early substantive testing; and</li> <li>• consideration of your Value for Money arrangements.</li> </ul>	12 March 2013	No	We completed the initial risk assessments for the opinion and Value for Money conclusion and our on-site interim visit. We are currently drawing together our conclusions.
<b>2012-13 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements</li> <li>• proposed opinion on the Council's accounts</li> </ul>	August 2013	No	We will agree with your finance staff our working paper requirements to support your draft financial statements by 31 March 2013.  We will commence our on-site post-statements work on the 3 July 2013.

# Progress at 8 March 2013

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2012/13 VFM conclusion comprises: <ul style="list-style-type: none"><li>• a initial risk assessment;</li><li>• a detailed review of arrangements against the criteria;</li><li>• bringing forward knowledge form previous auditors;</li><li>• reviewing key documents; and</li><li>• discussion with officers.</li></ul>	August 2013	No	Our work will be focussed on the two criteria specified by the Audit Commission i.e. <ul style="list-style-type: none"><li>- The organisation has proper arrangements in place for securing financial resilience; and</li><li>- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li></ul> We will provide a report setting out the findings from our work on the Financial Resilience criteria.
<b>Other areas of work</b> <b>Certification and Claims including Housing Benefits</b>	September 2013	No	We expect to carry out some work on the Housing Benefit claim in June 2013 and complete this work in September 2013.

# 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.

# 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.



# 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:

- Municipal Mutual 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.
- 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'.

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# 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.

# 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 Director of Resources identified the key risks for the Council in preparing the 2012/13 financial statements?
- Has your Director of Resources 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 council's 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.

# Emerging issues and developments

## Local government guidance

**'Tough Times: Councils' financial health in challenging times'** In November, the Audit Commission published "Tough Times 2012: Council's 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.

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



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