

# Audit Board Update for Bromsgrove District Council March 2013

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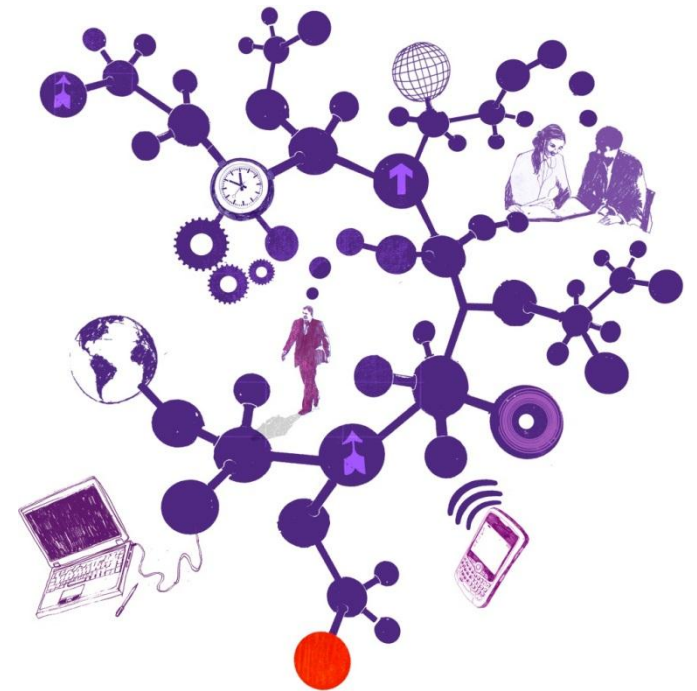
**Year ended**

31 March 2013

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# Introduction

This paper provides the Audit Board 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 Audit Board 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.

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 1 March 2013

Work	Planned date	Complete?	Comments
<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>	March 2013	YES	This is presented to the March Audit Board. As the Cabinet has overall responsibility for approving the accounts, this report should also be presented to Cabinet.
<p><b>Interim accounts audit</b> Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• 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>• Value for Money risk assessment.</li> </ul>	February/ March 2013	NO	This work is currently on-going. We will provide an update to the next Audit Board.
<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</li> <li>• proposed Value for Money conclusion.</li> </ul>	September 2013	NO	We will be undertaking the main final accounts visit during July 2013. The Annual Governance statement containing the findings from the audit will be presented to Cabinet in September. We will provide an update to the September Audit Board.

# Progress at 28 February 2013.

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2012/13 VFM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• A review of the Council's medium to long term financial plan to determine the measures in place to deliver savings over the medium to long term.</li> <li>• A review of the Council's plans in relation to both the Shared Service Agenda and transformation, with particular focus on the relationship between this and the medium term financial plan.</li> <li>• monitoring the in-year progress against savings targets and longer term plans to deliver recurrent savings in future years.</li> <li>• Monitoring of the Councils in-year progress and achievement of its financial targets to the end of the financial year.</li> </ul>	<p>March 2013</p>		<p>The substantive work will be undertaken in March but will be updated when the outturn position is known.</p>
<p><b>Other areas of work</b></p> <p>Housing Benefits return to DWP.</p>	<p>March –meet with officers</p> <p>June – early modules testing</p> <p>August – client testing early modules</p>		<p>The housing benefits claim is a substantial piece of work. In previous years the Council has undertaken some of the testing on our behalf in order to reduce the audit fee. We will agree with officers a timetable to ensure the work is completed by the deadline.</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 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 Executive Director of Finance and Resources 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.
- 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 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 Executive Director of Finance and Resources 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?

### **'LG Governance Review 2013: Improving Council Governance local government Governance; a slow burner'**

This report published in February 2013. This report is based on a desktop review of the annual governance statements (AGS) and explanatory forwards of 153 county councils, London Boroughs metropolitan borough councils and unitary councils in England and makes comparison against best practice. This is supplemented by a survey of 63 'council leaders'.

This report is a useful reference for the Council when preparing its 2012/13 AGS and accounts.

# 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 Executive Director of Finance and Corporate Resources identified the key risks for the authority in preparing the 2012/13 financial statements?
- Has your Executive Director of Finance and Corporate 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 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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# 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?



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