



Audit Committee Update for Carlisle City Council

Year ended 31 March 2014

January 2014

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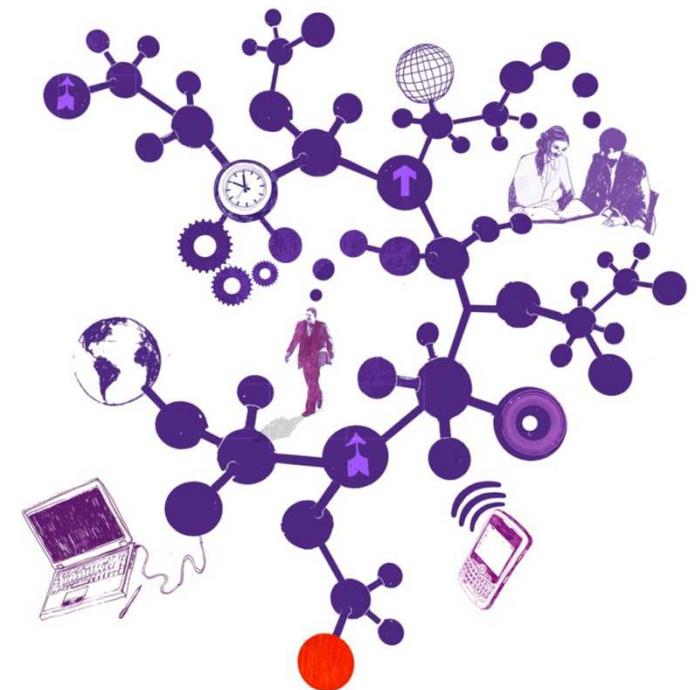
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Introduction

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 publication:

- Local Government Governance Review 2013
- 2016 tipping point - Challenging the current
- Towards a tipping point
- The migration of public services
- 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 13 January 2014

Work	Planned date	Complete?	Comments
<p>2013-14 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 2013-14 financial statements.</p>	April 2014	No	The Audit Plan will include the results of the interim visit. The interim visit work is scheduled to be completed by mid April 2013. The Plan will be presented to the next Audit Committee after that date. This report provides an update on current progress, highlights emerging issues and gives the Audit Committee an understanding of the audit process at Grant Thornton.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment including Information Technology (IT) • updating our 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. 	January to April 2014	Partial	<p>Work on the interim audit is scheduled to be completed by mid April 2014. We will discuss with Officers the key financial systems for which we need to gain an updated understanding for 2013/14.</p> <ul style="list-style-type: none"> • We will meet with senior finance staff and internal audit to assess the internal control environment. • An Information Technology risk assessment was undertaken by a Grant Thornton IT specialist. • We will complete our initial risk assessments for our Value for Money Conclusion.
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	1 July 2014 to early September 2014	No	<p>We will have discussions with the Financial Services & HR Manager and other Senior finance staff on key accounting and audit issues to assist the smooth running of the final accounts audit.</p> <p>We will provide a local government final accounts workshop in February or March 2014.</p>

Progress at 13 January 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Securing Financial Resilience <ul style="list-style-type: none"> - Financial Governance - Financial Planning - Financial Control • Securing Economy, Efficiency and Effectiveness <ul style="list-style-type: none"> - Prioritising Resources - Improving Efficiency and Productivity • An output from this work is a 'financial resilience' report for the Council which will be a summary of: <ul style="list-style-type: none"> - the Council's comparative position in terms of key financial ratios - progress on implementing the recommendations from our 2012/13 report - identification of, and recommendations on, areas for improvement in 2013/14 	<p>By early September 2014</p>	<p>No</p>	<p>There are no significant changes in approach to the VfM conclusion work from that carried out in previous years. However, there is continued emphasis on financial resilience with a separate report produced on this for your Council. It will be reported in September alongside the ISA+ 260 Audit Findings Report.</p> <p>Our detailed VfM risk assessment will direct the work we carry out.</p>

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Issues to consider:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the Council's financial objectives and complying with legal requirements?
- Has the Council reviewed its charging policy and levels of income against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published '[Business rates: using data from the VFM profiles October 2013](#)'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Issues to consider:

- Has the Council reviewed its costs and performance against similar organisations?
- What steps could the Council take to increase the amount it collects from business rates?
- Is an action plan in place?
- Has the Council made a robust estimate for its provision for business rate appeals?

Emerging issues and developments

Grant Thornton

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide people are not in a position acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Issues to consider:

- Does the Council have a properly functioning procurement process, where duties are clearly segregated?
- Does the Council maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

Issues to consider:

- How are you planning to improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of the Council?
- Has your finance team carried out a de-cluttering exercise to ensure that disclosures are relevant, material and up to date?

Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.

Issues to consider:

- Has your finance team reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Issues to consider:

- Are both your finance team and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your finance team reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure the Council complies with other aspects of the Code requirements?
- Where the Council is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Issues to consider:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect the Council?



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