



# Audit Committee Update for Carlisle City Council

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**Year ended 31 March 2013**

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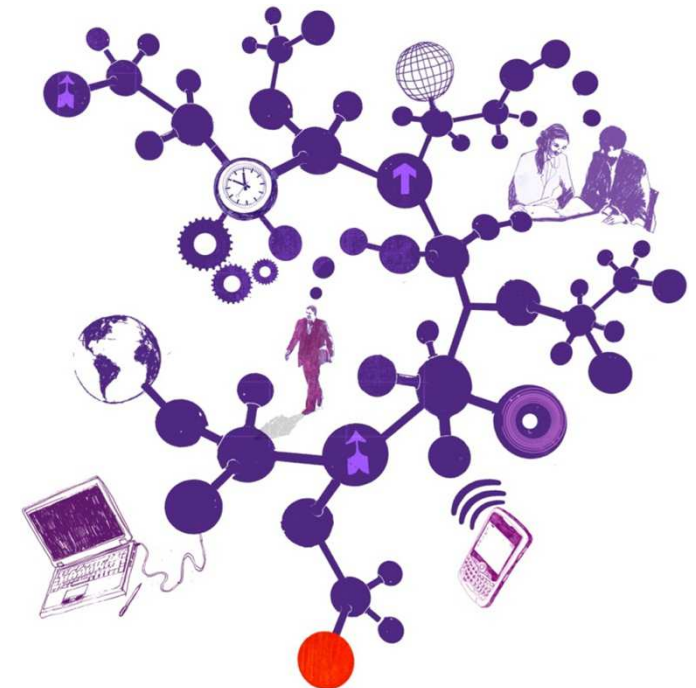
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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# Contents

<b>Section</b>	<b>Page</b>
Introduction	4
Progress at 28 March 2013	5
Emerging issues and developments	
Accounting and audit issues	7
Grant Thornton	9
Local government guidance	10

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

This paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority that you 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 such as:

- Local Government Governance Review 2013
- 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 March 2013

Work	Planned date	Done	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>	May 2013	Partial	<p>The Audit Plan includes 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> <p>We have not identified any significant matters at this stage.</p>
<p><b>Interim accounts audit</b> Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• updated review of the Council control environment including Information Technology (IT)</li> <li>• update understanding of financial systems</li> <li>• updated understanding of the VAT and taxation environment</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>• proposed Value for Money conclusion.</li> </ul>	February to April 2013	Partial	<p>Work on the interim audit is scheduled to be completed by mid April 2013. We have discussed with Officers the key financial systems for which we need to gain an updated understanding for 2012/13.</p> <p>We have met with senior finance staff and internal audit to assess the internal control environment.</p> <p>An Information Technology risk assessment was undertaken by a Grant Thornton IT specialist.</p> <p>We are using VAT and employee services specialists to gain an understanding of the Council's VAT and taxation environment. This review commenced in March 2013.</p> <p>We had a liaison meeting with Internal Audit to discuss each other's plans.</p> <p>We have completed our initial risk assessments for our Value for Money Conclusions.</p>

## Progress at 28 March 2013

Work	Planned date	Done	Comments
<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>	1 July 2013 to early September 2013	No	We are having discussions with the Financial Services Manager and other Senior finance staff on key accounting and audit issues to assist the smooth running of the final accounts audit.
<p><b>Value for Money (VFM) conclusion</b> The scope of our work to inform the 2012/13 VFM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• Securing Financial Resilience <ul style="list-style-type: none"> <li>- Financial Governance</li> <li>- Financial Planning</li> <li>- Financial Control</li> </ul> </li> <li>• Securing Economy, Efficiency and Effectiveness <ul style="list-style-type: none"> <li>- Prioritising Resources</li> <li>- Improving Efficiency and Productivity</li> </ul> </li> <li>• An output from this work is a 'financial resilience' report for the Council</li> </ul>	By early September 2013	No	<p>There are no significant changes in approach to the VFM conclusion work from that carried out in previous years. However, there is a greater 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>

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# 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

### Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision are 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:

- **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'.
- **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 a creditor to be recognised or, if the timing or amount of the payment is uncertain, a provision in the financial statements. In finalising the 2011/12 audit it was agreed that finance staff would consider whether a creditor or provision would be required for MMI as part of the production of the 2012/13 financial statements.



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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.

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

### 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.

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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.

### **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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