



Audit Committee Update for Thanet District Council

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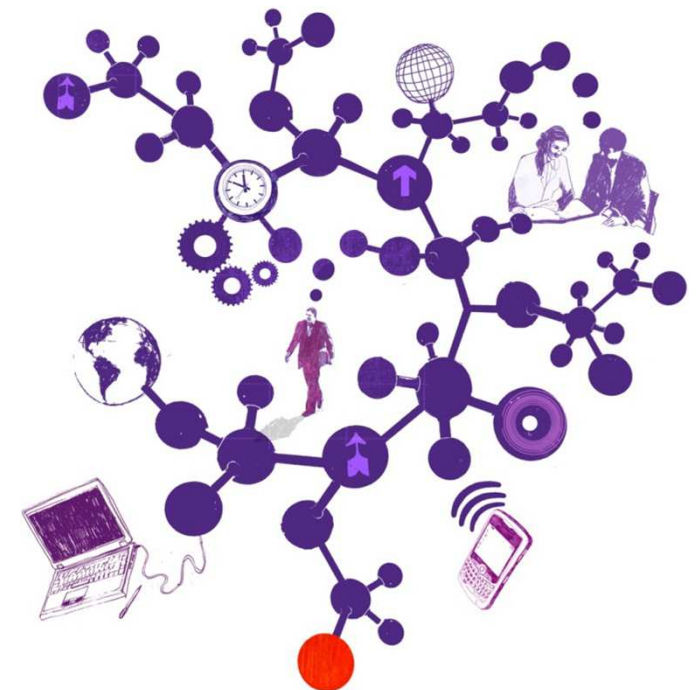
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2013

10 June 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 Governance and 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 Governance and 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 publications – 'Local Government Governance Review 2013', '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 10 June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Fee Letter We prepare a fee letter annually, setting out the fee for the audit and grant certification work for the year.</p>	30 November 2012	Yes	<p>We issued the fee letter to officers in November 2012 and it is a separate item on today's agenda. For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fees for 2012/13 are:</p> <ul style="list-style-type: none"> • Audit: £87,495 (£145,825 in 2011/12) • Grant Certification: £22,800 (£41,156 in 2011/12)
<p>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.</p>	April 2013	Yes	Our 2012/13 was agreed with officers in April 2013 and is presented to this committee separately on today's agenda.
<p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • review of the Council's control environment • update our understanding of financial systems • review of Internal Audit reports • early work on emerging accounting issues • early substantive testing 	June 2013	In progress	<p>We have reviewed the Council's control environment, financial systems and IT controls. The Chair has provided an update on how the Governance and Audit Committee gains assurance over management processes and arrangements. At this stage there are no issues to bring to your attention. We have reported findings in our audit plan and will provide a final update in our audit findings memo.</p>

Progress at 10 June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 final accounts audit Including:</p> <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 	<p>15 July – 9 August September 2013 September 2013</p>	No	<p>We held an initial liaison meeting with officers in November 2012 to discuss the proposed action plan following last years audit, discuss emerging accounts issues and agree the dates of our final accounts audit visit. We have sent out an arrangements letter to officers, which clarifies the working papers we would expect the Council to produce to support its financial statements and held ongoing discussions regarding preparation.</p>
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2012/13 VfM conclusion is based on the reporting criteria specified by the Audit Commission: 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>	Ongoing	No	<p>We have started our VFM planning. The specific areas for review are set out in our audit plan. The majority of our financial resilience review work is scheduled for completion in June and July 2013. 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 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) 	<p>July 2013 (initial testing July 2013 July 2013</p>	No	<p>These certification audits have been scheduled to ensure compliance with all grant certification deadlines. 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

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued LAAP Bulletin 96. The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013.

Challenge question: Has your Financial Services Manager reviewed the guidance and assessed the potential impact for your financial statements?

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

Challenge question: Is your Financial Services Manager aware of the changes to the 2013/14 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a set of case studies, available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- Has your internal audit considered the practice case studies?

Emerging issues and developments

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Use of Outsourced IT Services

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within the Local Government sector. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- a major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- a large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

Challenge question:

- Are you happy that you have procedures in place to monitor and manage risks of outsourced IT services?

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

Emerging issues and developments

Local government guidance

2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its 2010/11 WGA report - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.
- DCLG published an unaudited consolidated account for English Local Government 2010/11 - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

Challenge question: Has your Financial Services Manager considered these reports, any lessons for the authority and produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

The National Audit Office has published 'Fact Sheet: Governance Statements: good practice observations from our audits' providing insight and commentary on the first year of Governance Statement reporting observations on good practice "challenge questions" for those whose role it is to oversee and scrutinise an organisation's Governance Statement.

Challenge questions: How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published 'Openness and transparency on personal interests - a guide for councillors'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question: What has your authority done to improve awareness of openness and transparency requirements for councillors?



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