

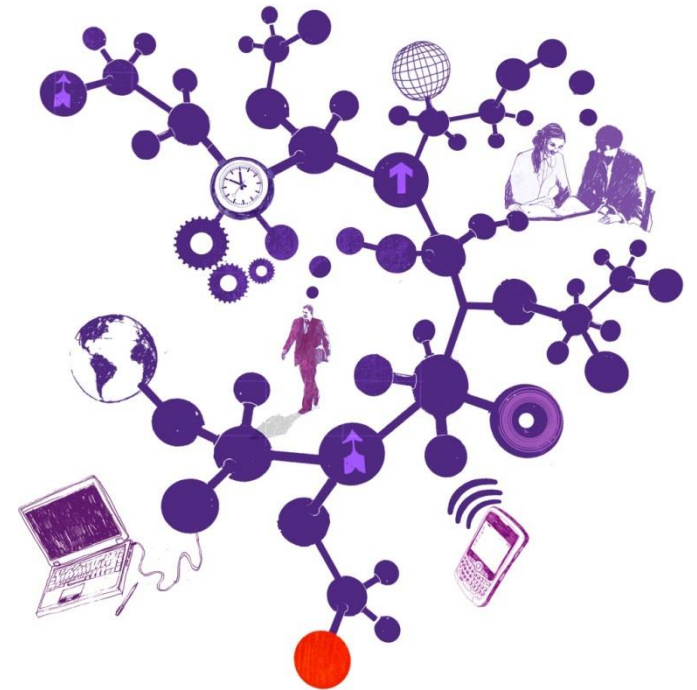
Thanet District Council External Audit Progress Report

Year ended 31 March 2014

June 2014

Andy Mack
Director
T 0207 728 3299
E andy.l.mack@uk.gt.com

Terry Blackman
Audit Manager
T 0207 728 3194
E terry.blackman@uk.gt.com



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.

Contents

Section	Page
Introduction	4
Progress at May 2014	5
Emerging issues and developments	
Accounting and audit issues	8
Local government guidance	12
Grant Thornton	15

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; and
- 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths

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.

Andy Mack	Engagement Lead	T 0207 728 3299	andy.l.mack@uk.gt.com
Terry Blackman	Audit Manager	T 0207 728 3194	terry.blackman@uk.gt.com

Progress at 20 March 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 Council's 2013-14 financial statements.</p>	March 2014	Yes	Our 2013/14 Audit Plan was agreed with officers March 2014 and is presented to this committee separately on today's agenda.
<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 • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues. 	February 2014	Yes	The findings from our interim visit are presented in our Audit Plan on today's agenda.
<p>2013-14 Management assurances We have received a response from management to our request for assurances about arrangements regarding fraud, legal and going concern risks.</p>	April 2014	Yes	We now request the Governance and Audit Committee to consider whether management's responses, as set out in our separate report to this meeting, are consistent with its understanding.
<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. 	August – September 2014	Not yet due	We have sent an arrangements letter to officers, which clarifies the working papers we would expect the Council to produce to support its financial statements.

Progress at 20 March 2014 [cont.]

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • review of arrangements for securing financial resilience • review of the Council's arrangements for 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>	March – July 2014	Not yet due	<p>Our field work is in progress. The specific areas for review are set out in our Audit Plan.</p> <p>We will produce a separate Financial Resilience report alongside our Audit Findings report in September 2013.</p>
<p>Other areas of work</p> <p>We will be required to certify the following grants for the Council in 2012/13:</p> <ul style="list-style-type: none"> • Housing benefit • Pooling of housing capital receipts (if value of claim greater than £500,000) 	August – October 2013	Not yet due	<p>These certification audits have been scheduled to ensure compliance with all grant certification deadlines.</p>
<p>Other activity undertaken</p> <ul style="list-style-type: none"> • 2012/13 objections 	January 2014	Yes	<p>We reported our findings on the objections to the 2012/13 accounts relating to the Transeuropa Ferries debt to the Extraordinary meeting of the Governance and Audit Committee on 26 February 2014.</p>

Emerging issues and developments

Understanding your accounts – member guidance

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

Supporting this guide we have produced two further documents to support members in discharging their responsibilities

- helping local authorities prepare clear and concise financial statements
- approving the minimum revenue provision

Copies of these are available from your engagement lead and audit manager.

Challenge question

Have members referred to this guidance?

Accounts – our top issues

Accounting and audit issues

Top issues for the 2013/14 closedown

Based on the queries we have received from practitioners and auditors, here is a list of the top [10] issues to consider for the 2013/14 closedown.

1. Do your accounts tell the overall story of your authority's financial performance and financial position? Are they clear, concise and easy to follow? Is detailed information on the most important information easy to find? Have duplicated text, non-material notes and zero entries been removed?
2. Are your accounts internally consistent? In particular, does the movement in reserves statement agree to the detailed notes?
3. Is your programme of revaluations is sufficiently up to date to ensure that the carrying value of property, plant and equipment does not differ materially from the fair value at 31 March 2014?
4. Have you accounted for provisions in accordance with IAS 37?
 - Have you considered provisions for business rates, equal pay and restoration and aftercare of landfill sites?
 - Are your provisions the best estimate of the liability (rather than a prudent estimate or an amount that is convenient for budget purposes)?
 - Is there a robust evidence based methodology to support the estimate?
 - Are there any instances in which a provision has not been made because a reliable estimate cannot be made? If so, Is their robust evidence to support the judgement that a reliable estimate is not possible? Has a contingent liability been disclosed?
5. Is your PFI accounting model up to date? Do your accounts disclose:
 - the fair value of PFI liabilities?
 - information on the impact of inflation on PFI commitments?
6. Have you addressed the new accounting requirements in 2013/14 for the presentation of IAS 19 pension costs? Have comparatives been restated?
7. Have you disclosed the accounting policy for schools? For those schools that are not recognised on the balance sheet, has information about school assets, income and expenditure been disclosed?

Accounts – our top issues

Accounting and audit issues

8. In the pension accounts, have the following disclosures required by the Code been included that are in addition to those set out in the CIPFA example pension fund accounts:

- the relationship between net assets available for benefits and the present value of promised retirement benefits
- an accounting policy for measurement of assets held at amortised cost.

9. Have you agreed a detailed closedown plan with your auditors? Does this include:

- how to deal with known major issues?
- a protocol for dealing with new issues as they arise?
- a date for a post-implementation review?

Challenge question

Has your finance team addressed the closedown issues and assessed the potential impact for your financial statements?

Accounts – CIPFA bulletin

Accounting and audit issues

LAAP Bulletin 98: Closure of the 2013/14 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 98](#).

<http://www.cipfa.org/policy-and-guidance/laap-bulletins/laap-98-closure-of-accounts-201314-and-related-matters>

The bulletin provides further guidance and clarification to complement CIPFA's 2013/14 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- public health reform
- non-domestic rates – provision for appeals against the rateable value of business properties
- component accounting
- accounting for pension interest costs in relation to current service cost and pension administration costs
- disclosure requirements for dedicated schools grant.

With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15 and on the measurement of transport infrastructure assets in 2016/17.

Challenge question

Has your Financial Service Manager reviewed the guidance and assessed the potential impact for your financial statements?

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VFM Profiles

Using data from the VFM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

Challenge questions

Has the Council used the Audit Commission briefing paper to consider how its:

- overall spending on household waste management has changed over time?
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time?;
- spending on different components of waste management compares with authorities that have similar or better performance?

Blue Badge fraud prosecutions double in three years

Local government guidance

Fraud prevention

The Local Government Association has reported that Blue Badge fraud prosecutions have doubled in three years as councils crackdown on dishonest motorists robbing disabled people of their independence and their right to easier parking. - See more at:

http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/6186329/NEWS#sthash.Pllm4374.dpuf

Stoke-on-Trent City Council, Plymouth Council and Hull City Council recently secured their first prosecutions against fraudsters while Manchester City Council has a 100 per cent conviction rate with more than 500 prosecutions in the past five years. Councils are also using new powers to seize and confiscate badges suspected of being used illegally and some have set up specific enforcement teams to tackle Blue Badge fraud.

Cllr Peter Box, Chair of the LGA's Economy and Transport Board, said:

"Councils are determined to do everything in their power to protect the quality of life for our disabled and vulnerable residents and will not hesitate to take legal action against anyone caught abusing the scheme. With more of these fraudsters being brought to justice than ever before by councils, this is sending a strong message that we will come down hard on drivers illegally using Blue Badges."

Challenge questions

Is the authority actively pursuing measures to prevent Blue Badge abuse, including prosecuting fraudsters?

Assessing the costs and benefits of local partnerships

Local government guidance

The government published its cost benefit analysis guidance for local partnerships on 2 April 2014.

Developed as part of the Greater Manchester 'whole place' Community Budget pilot, it was the first Treasury-approved assessment of the costs and benefits of joining-up and reforming public services in local areas.

The framework was developed by New Economy, the economic strategy unit of the Greater Manchester Combined Authority. John Holden, acting director of economic strategy at the agency, led the team that devised the methodology. He said

"this model provides a framework to start thinking about more holistic projects that deliver long-term outcomes but also produce short-term cashability [savings]"

The guidance sets out a standard process to determine the benefit of reforms, based on the unit cost of services, their impact and the savings that result. In providing Treasury backing for the cost benefit analysis framework – it has been included in Whitehall's Green Book for policy appraisal and evaluation – it has been added to the government's assessment process for the latest £320m round of the Transformation Challenge Award, which provides funding to councils to implement reforms.

Challenge question

Has the authority considered the applicability of the government's cost benefit analysis guidance in considering the cost-benefits of local service delivery options?

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Challenge questions

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Has the Authority reviewed these case studies and assessed whether it is meeting good practice in these areas?
- Our report includes key questions for members to ask officers on risk management and alternative delivery models. Are these issues being considered and responded to by officers?



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk