



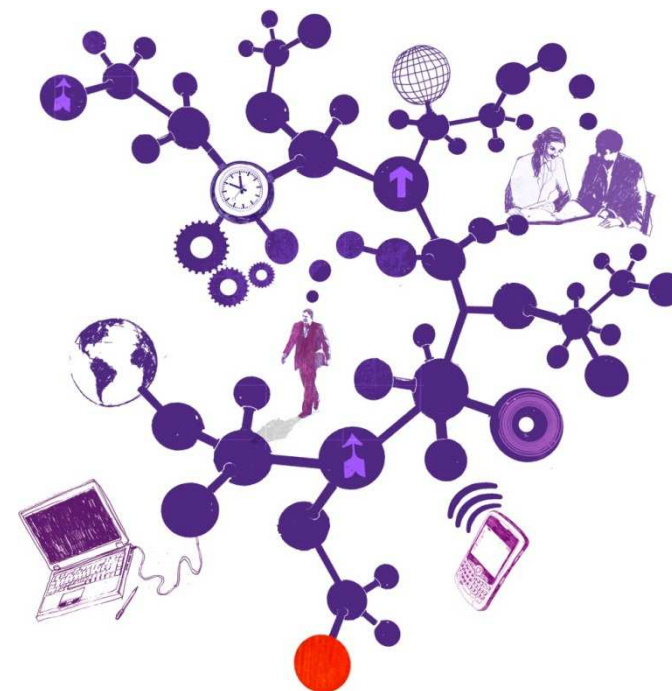
Audit Committee Update for Redditch Borough Council

Year ended 31 March 2014

16 January 2014

Phil Jones
Engagement lead
T 0121 232 5232
E phil.w.jones@uk.gt.com

Zoe Thomas
Manager
T 0121 232 5277
E zoe.thomas@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 December 2013	5
Emerging issues and developments	
Local government guidance	7
Grant Thornton	9
Accounting and audit issues	11

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.

Your Executive Director, Finance and Resources has agreed to prepare an action plan that addresses the issues raised in these papers. This will be presented to the next Audit Committee for members consideration

Members of the Audit Board 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.

Phil Jones Engagement Lead T 0121 232 5232 M 0782 434 3631 phil.w.jones@uk.gt.com
Zoe Thomas Audit Manager T 0121 232 5277 M 07880 456 119 zoe.thomas@uk.gt.com

Progress at December 2013

Work	Planned date	Complete?	Comments
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.	January 2014		The audit plan will be presented to the April audit committee. The report will include the findings from our interim visit We will also be bringing the 'informing the audit risk assessment' for your consideration.
Interim accounts audit Our interim fieldwork visit includes: • 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 • early substantive testing • proposed Value for Money conclusion.	March 2014		
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion,	July 2014 fieldwork – opinion issued September 2014		

Progress at December 2013

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises a review of the Council's arrangements against the following criteria: The organisation has proper arrangements in place for securing financial resilience. - The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness: - The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	March – July 2014		
Other activity undertaken - Audit committee workshop – presentation to members on the role of the audit committee. - Meeting with Leader and Portfolio holder for Finance - Meeting between Director of Finance and Grant Thornton performance improvement lead. To support the Council, the following documents have subsequently been provided: - Proposal for benchmarking review - Document for discussion on Trusts - Audit Commission VFM profiles for the Council	September 2013 December 2013 December 2013		

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.'

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.

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 acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

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

Local government guidance

Voluntary Code of Practice on the Housing Revenue Account

In October, CIPFA and the Chartered Institute of Housing (CIH) issued the ['Voluntary Code for a Self-financed Housing Revenue Account'](#).

The voluntary code aims to give authorities the tools necessary to control and evaluate the performance of their HRA and increase the value it returns to both councils and rate payers. It will also help authorities to assess and develop effective governance and financial management frameworks for their HRA.

This code is designed to be self-regulatory and compliance is not formally required.

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.

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.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

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.

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.



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant.thornton.co.uk