

Audit Committee Update for Bath and North East Somerset Council

Year ended 31 March 2014

November 2013

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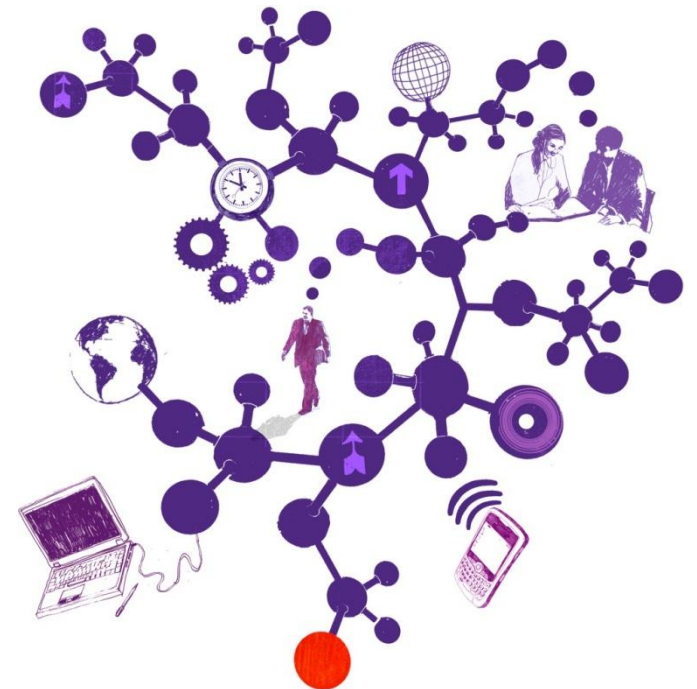
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Introduction

This paper provides the Corporate 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 unitary council.

Members of the Corporate 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 developing internal audit agenda', '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 November 2013

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 <i>Council's</i> 2013-14 financial statements.</p>	May 2014	Not yet due	A Plan will be issued on completion of our interim work and risk assessment. There will be a separate Plan for the Council and one for the Avon Pension Fund.
<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 • early substantive testing • early work for the Value for Money conclusion. 	December 2013 to April 2014	Not yet due	
<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. 	July to September 2014	Not yet due	

Progress at November 2013

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"> • <i>Continuing review of your processes for developing financial plans and savings plans</i> • <i>Monitoring progress with economic development projects</i> • <i>Monitoring progress with joint working including social care and health care integration.</i> 	July to September 2014	Not yet due	
<p>Other areas of work</p> <p>We will certify your Regional Growth Fund return in accordance with the Government Department timetable.</p>	January 2014	Not yet due	
<p>Other activity undertaken Certification of grants within the audit commission regime</p> <p>Our work on the 2012/13 certification of grant claims is virtually complete ahead of the Government Department deadlines. We will bring a report summarising our work to the next meeting of the Corporate Audit Committee.</p>	February 2014	Not yet due	<p>The claims and returns include:</p> <ul style="list-style-type: none"> • NNDR pool return • Teachers' pensions return • Housing Benefits return • Local Transport Plan major projects, relating to the Bath Package

Emerging issues and developments

Local government guidance

Income from charging

In September 2013, 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 for consideration:

- 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 your Strategic Director Resources reviewed the council's 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

Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The [Integration Transformation Fund statement](#), signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two ear plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Issue for consideration:

- How is the Council planning to work with its partners to formulate joint plans and obtain funding?

Emerging issues and developments

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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.'

Issues for consideration:

- 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

Grant Thornton

Local Government Pensions Governance Review

This report presents the findings of our first review of [Local Government pension schemes' governance](#). Based on comprehensive research with pension fund senior officers and supported by insights from pension fund auditors, our report shows that there is a wide variety of practice across the UK:

- 70% of funds operate with a single pension committee, but those that use sub-groups are able to act more quickly, with a greater focus on the strategic management of the fund, while ensuring the important aspects of operation are given proper consideration
- only 25% of funds provide their pension committee with regular (more than once a year) reports on key risks affecting the fund
- only 22% of funds are implementing action plans resulting from the CIPFA knowledge and skills framework
- 60% of pension funds benchmark their costs and have reduced them in recent years, but reporting to pension committees on administration costs and savings is under-developed
- there are lessons to be learnt from funds that have worked collaboratively to reduce costs, share expertise and improve services.

The report also provides an outline of governance and reporting best practice and an update on the significant changes to Local Government pension schemes.

Issues for consideration:

- Have you reviewed the report and used the questions posed in the report to help assess the strength of your current governance arrangements?
- What action do you plan to take to improve governance arrangements?

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

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 for consideration

- Are both your Strategic Director Resources 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 Strategic Director Resources reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your authority 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 for consideration:

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



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