



# Audit Committee Update for Blackburn with Darwen Council

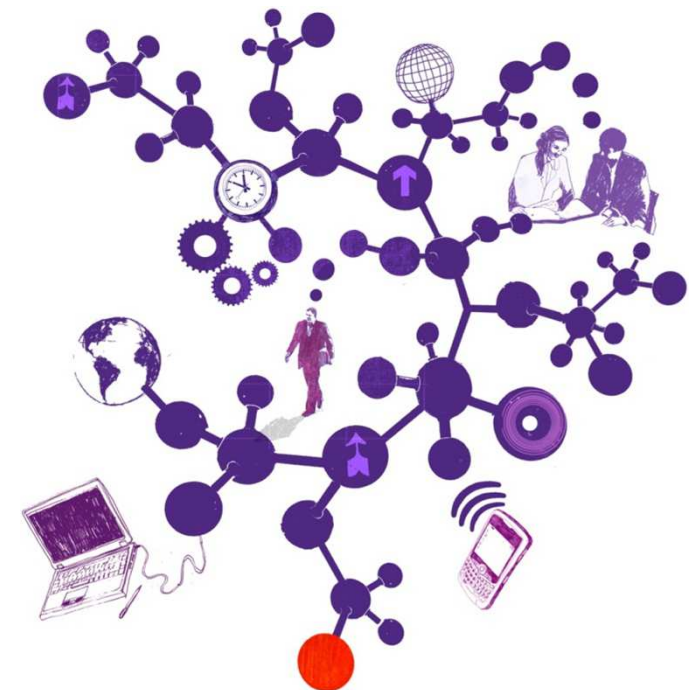
---

**April 2013**

**Karen Murray**  
Director/Engagement Lead  
T (0) 161 2346364  
E karen.l.murray@uk.gt.com

**Chris Whittingham**  
Manager  
T (0) 161 214 6362  
E c.whittingham@uk.gt.com

**Paul Thompson**  
Executive  
T (0) 161 234 6348  
E Paul.A.Thompson@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

<b>Section</b>	<b>Page</b>
Introduction	4
Progress at April 2013	5
Emerging issues and developments	
Accounting and audit issues	7
Grant Thornton	11
Local government guidance	12

---

# 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 Council.
- includes 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](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 - 'Local Government Governance Review 2012', '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.

Karen Murray, Engagement Lead T 0161 234 6364 M 07880 456205 [karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)  
Chris Whittingham Audit Manager T 0161 214 M 07880 456174 [c.whittingham@uk.gt.com](mailto:c.whittingham@uk.gt.com)

## Progress at April 2013

Work	Planned date	Complete?	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>	April 2013		Our plan highlights the accounting risks we have identified from our audit planning and discussions with the Director of Finance and her team. The Plan sets out our proposed work to address those risks.
<p><b>Interim accounts audit</b> Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• review of the Council's control environment</li> <li>• review of key financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> </ul>	January – March 2013		Our interim audit is in progress. There are no matters we need to bring to your attention at this stage.
<p><b>2012-13 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements and Whole of Government Accounts return</li> <li>• proposed opinion on the Council 's accounts</li> <li>• proposed Value for Money (VfM) conclusion.</li> </ul>	June – September 2013		Our Annual Report to those charged with governance will set out matters arising from our accounts audit and VfM conclusion.

## Progress at April 2013

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>We will give our statutory VfM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Audit Commission, which are:</p> <ul style="list-style-type: none"> <li>- <b>securing financial resilience</b> – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future.</li> <li>- <b>challenging how it secures economy, efficiency and effectiveness</b> – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.</li> </ul>	January – September 2013		<p>We will complete our risk assessment and undertake a planned programme of VfM work to inform our 2012-13 conclusion.</p> <p>Our VfM work will be completed by September 2013.</p> <p>We will prepare a separate report on financial resilience and share our findings with management. Key findings and any recommendations from this review will be included in our Annual Audit Letter.</p>
<p><b>Annual Audit Letter – 2012-13</b></p> <p>We are required to summarise our work performed at the Council, including:</p> <ul style="list-style-type: none"> <li>- the accounts audit</li> <li>- VfM work</li> <li>- grant claim certification</li> </ul>	October 2013		
<p><b>2012-13 Grant claims report</b></p> <p>We are required to summarise the outcome of our work to certify the Council's 2012-13 grant claims and returns.</p>	June – December 2013		

# 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.
- 49% 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.

Challenge questions:

- Do you know your key risks?
- Have officers ensured the financial impact is fed into medium term financial plans?
- Have officers undertaken modelling of future business rates growth?
- Have officers given due consideration to pooling?
- Have officers considered the possible impact on council tax collection rates if they do reduce benefit entitlement in line with the funding reduction?
- Has your Director of Finance reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?

# Emerging issues and developments

## Accounting and audit issues

### CIPFA consultation on Service Reporting Code of Practice 2014/15: Adult Social Care Service Expenditure Analysis (England only)

In January, CIPFA issued a [consultation](#) on the proposed changes to the Adult Social Care Service Expenditure Analysis. The proposed changes are for a complete revision to the mandatory lines and these have been based on work done by the Health and Social Care Information Centre.

The closing date for responses was 28 February 2013.

Challenge questions:

- Has your Director of Finance reviewed the proposed amendments and assessed the potential impact?
- Has your Council considered whether it wishes to respond to the consultation?

### Accounting for joint arrangements

IAS 31 classified joint ventures into jointly controlled operations, jointly controlled assets and jointly controlled entities. Under IFRS 11 both jointly controlled operations and jointly controlled assets are classified as joint operations.

Under IAS 31 members of jointly controlled entities were permitted to use proportionate consolidation or equity accounting to account for their interests in the jointly controlled entity's assets, liabilities, revenue and expenses. Under IFRS 11 the ability to use proportional consolidation for interests in joint ventures is no longer permitted. Equity accounting is required.

Last year, Grant Thornton published a flyer '[Accounting for joint arrangements by local authorities under IFRS 11](#)' to highlight the changes being introduced by IFRS 11 'Joint arrangements' compared to IAS 31 'Interests in joint ventures' for 2013/14.

Challenge question:

- Have officers considered the impact of these new arrangements?
- Are you clear on the issues arising for the Council ?



---

# Emerging issues and developments

## Accounting and audit issues

### Assets transferring to academy schools

There is ongoing debate as to whether assets relating to schools that have been granted academy status should be:

- impaired to nil at the date of the granting of a transfer order on the basis that the assets will be disposed of for nil value or
- not impaired as the assets are still being used and so should be shown at the balance sheet date at full existing use value.

Our view is that this is a matter for judgement and the financial statements should set out clearly:

- the policy followed by the authority
- details of material assets that are to be transferred out of local authority control.

Where an academy school's assets are subject to a PFI arrangement, the authority may have a potential onerous contract where there is a shortfall in funding ie. where an authority has a PFI contractual agreement to pay out more than it expects to receive back in PFI credits and reimbursement from an academy. If an authority is facing a shortfall between its contractual obligations and the amounts it expects to receive to fund these obligations, the authority should consider whether the contract is onerous. In considering whether or not there is an onerous contract, the authority would need to consider the service it receives.

Challenge questions:

- Has your Director of Finance considered how to account for assets relating to schools that have been granted academy status?
- Has your Director of Finance considered whether or not there is an onerous contract for PFI contracts relating to academy schools?
- Has your Director of Finance discussed these issues with external audit?

# Emerging issues and developments

## Accounting and audit issues

### Provisions

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

- Mutual Municipal Insurance – 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 local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements.
- Land restoration costs – where a local authority owns a closed landfill site and is responsible for aftercare costs, we would expect the authority to recognise a provision for total future costs. These landfill aftercare costs should also be capitalised and depreciated under IAS 16 'Property, Plant and Equipment' so there is no immediate impact on the General Fund.
- Equal pay - in October 2012 the supreme court ruled that more than 170 former Birmingham City Council employees can make equal pay claims. This effectively extends the time workers have to bring equal pay compensation claims from six months to six years. We would expect local authorities to consider whether they have received any additional claims and, where the criteria set out in IAS 37 have been met, recognise a provision.
- 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'.

Challenge question:

- Has your Director of Finance considered the need for additional provisions for the above matters?

---

# 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.

#### Challenge questions:

- Have you considered the findings of the report?
- Are there any issues that relate to your authority and what action are you going to take?

---

# 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.

Challenge questions:

- Has your Director of Finance identified the key risks for the authority in preparing the 2012/13 financial statements?
- Has your Director of Finance produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?
- Has this been discussed and agreed with the External Auditors?

### '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.

Challenge questions:

- Are your officers providing you with the right information about reserves?
- Have you considered the findings of the report and identified where actions are required?

---

# 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.

Challenge question:

- Have you considered the findings of the report and any actions required?

### '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.

Challenge questions:

- Have you considered the findings of the report?
- Are there any issues that could relate to your authority and how are these being dealt with?
- Have you reviewed your existing arrangements for tackling fraud?

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

# Emerging issues and developments

## Local government guidance

### Broadband Initiative – Rural Broadband Fund

*Lancashire, Blackpool, Blackburn with Darwen - £10.8m*

The Government has committed to delivering superfast broadband (24Mbps) accessibility to 90% of UK premises, and a minimum of 2 mbps to the remaining 10% of premises. The Department of Culture Media and Sport (DCMS) has entered into a Framework Agreement with two Suppliers, BT and Fujitsu, for the purposes of delivering this broadband infrastructure.

Local authorities are responsible for utilising the Framework Agreement to procure superfast broadband infrastructure for their areas. DCMS has grouped local authorities in England into circa 40 regions which are undertaking call-off procurements with BT and Fujitsu on a phased basis. Local authorities are therefore at different stages of the process (i.e. pre-procurement, in procurement, or at the award stage). The first local authorities to undertake the call-off process have recently awarded contracts to BT.

There are a number of important financial and commercial issues which local authorities will need to understand, investigate and take action in order to secure and demonstrate value for money. The main issues are:

- Procurement strategy
- Grant agreements
- Financial forecasts
- Milestone payments
- Phasing of roll-out
- Demonstrating value for money

Challenge questions:

- Are you happy that officers have identified the financial and commercial issues relating to the delivery of superfast broadband?
- Can officers demonstrate value for money has been achieved?

Grant Thornton has significant experience of advising the public sector on broadband procurements of this nature. Please talk to your audit manager if you would like more information.



© 2013 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](http://grant-thornton.co.uk)**