

# Audit and Governance Committee Update for Surrey County Council

Page 55

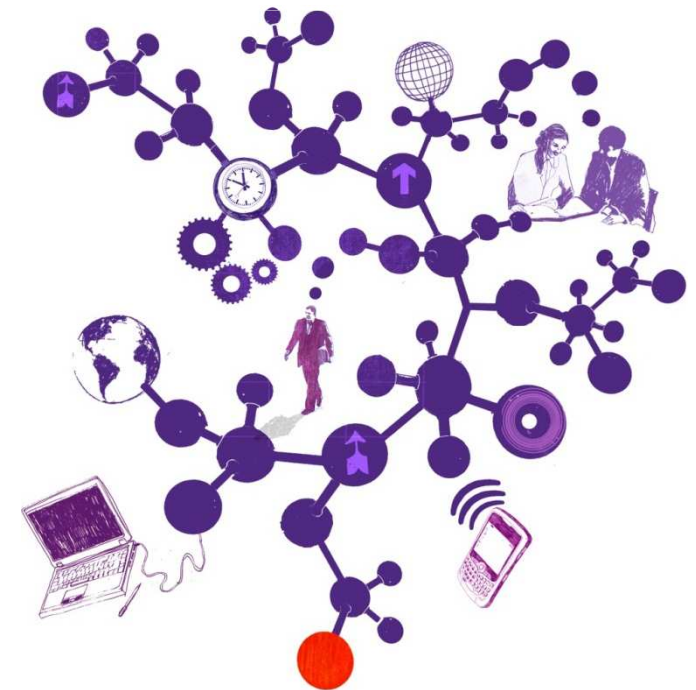
**Year ended 31 March 2013**

04 Mar 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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# Contents

Section	Page
Introduction	4
Progress at 4 March 2013	5
Emerging issues and developments	
Accounting and audit issues	7
Grant Thornton	10
Local government guidance	11

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# Introduction

This paper provides the Audit and Governance 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 County Council.

Members of the Audit and Governance 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.

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# Progress at 4 March 2013

Work	Planned date	Complete?	Comments
<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.	18 March 2013	Yes	Our Audit Plan has been discussed and agreed with the Chief Finance Officer and Deputy Director for Change & Efficiency and is included on the agenda for today's meeting.
<b>Interim accounts audit</b> Our interim fieldwork visit is currently in progress and will cover the following: <ul style="list-style-type: none"> <li>• review of the Council's control environment</li> <li>• walkthroughs of key financial systems</li> <li>• review of overall Internal Audit arrangements</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing on journals and the PFI schemes</li> <li>• review of progress in implementing the recommendation on accruals</li> <li>• review of the Council's arrangements for recording related party transactions</li> <li>• initial Value for Money assessments</li> </ul>	Started 25 February 2013	No	
<b>2012-13 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	17 June 2013	No	

## Progress at 4 March 2013

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• reviewing the progress being made on the Council's Waste Management PFI project;</li> <li>• reviewing the Council's development of income generation plans;</li> <li>• assessing the achievement of the savings required by the Council's Medium Term Financial Plan (MTFP) and how future savings will be made;</li> <li>• reviewing the arrangements in place for budgeting, forecasting and reporting capital expenditure;</li> <li>• assessing progress in implementing the recommendations arising from Public Value Reviews (PVRs);</li> <li>• reviewing progress made in developing partnership working; and</li> <li>• assessing financial standing including adequacy of balances and reserves.</li> </ul>	<p>Started 25 February 2013</p>	<p>No</p>	<p>The results of our work will be reported to the Audit and Governance Committee in our Financial Resilience Report and in our Audit Findings (Annual Governance) Report.</p>

# 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.
- 50% 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.

### 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.

# Emerging issues and developments

## Accounting and audit issues

### Assets transferring to academy schools

There is on-going 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 Council
- details of material assets that are to be transferred out of local authority control.

### 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.



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# Emerging issues and developments

## Accounting and audit issues

- 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'.

# Emerging issues and developments

## Grant Thornton

### **'Improving council governance: A slow burner'**

Councils are facing continued, intense pressure to reduce spending and implement organisational change, while maintaining services and introducing alternative delivery models. There is also an increased public demand for greater transparency in decision-making and performance.

Our second annual review, published on 28 February 2013, is based on survey responses from over 60 senior council officers and members and a desk top review of over 150 UK councils' 2011/12 annual governance statements and explanatory forewords. It evaluates the soundness of existing systems for operating in the current challenging environment and also identifies trends in sector views around the effectiveness of underlying governance processes and the important factors of people, culture and behaviour.

### **'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.

# Emerging issues and developments

## Local government guidance

### **'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.

### **Broadband Initiative – Rural Broadband Fund**

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

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.



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