



# Audit Committee Update for Exeter City Council

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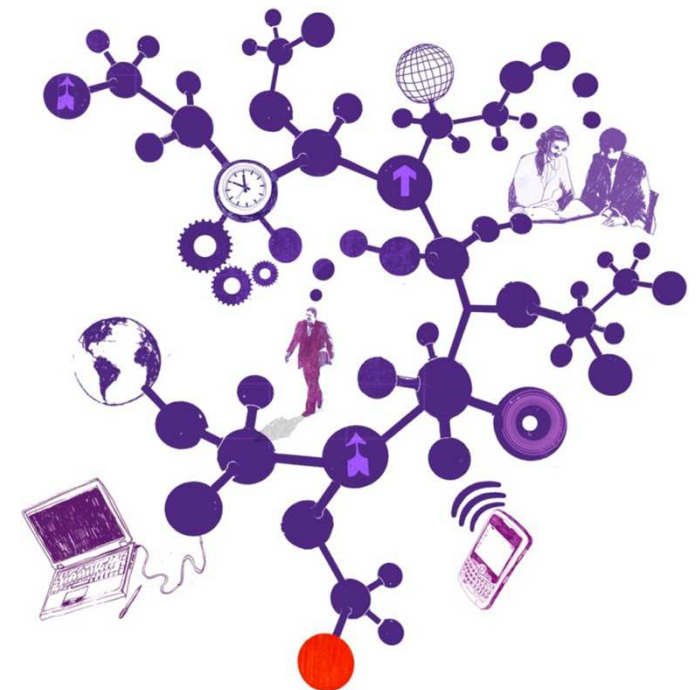
**Year ended 31 March 2013**

5 June 2013

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# 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 – 'Towards a tipping point?', 'The migration of public services', '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 June 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>	May 2013	Yes	Our audit plan was finalised in May 2013 and is included as an agenda item for consideration at the 26 June 2013 meeting of the Audit Committee.
<p><b>Interim accounts audit</b> Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• update understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	May 2013	Yes	Our interim fieldwork is complete and the findings form part of the audit plan which, as noted above, will be presented to the June 2013 meeting of the Audit Committee.
<p><b>2012-13 final accounts audit</b> Including:</p> <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>	August/ September 2013	Not yet due	<p>In advance of our final accounts audit we will continue to meet with senior finance staff and Internal Audit.</p> <p>This will ensure we have an up to date understanding of the issues relevant to our audit of the accounts and Value for Money conclusion.</p>

## Progress at June 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 assessing whether the Council:</p> <ul style="list-style-type: none"> <li>• has proper arrangements in place for securing financial resilience</li> <li>• has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul>	March - August 2013	In progress	<p>We undertake an initial risk assessment to identify any significant risk areas. This is followed by more detailed work.</p> <p>In common with other local government bodies Exeter City Council faces significant financial pressures. We will review the Council's financial plans and outcomes and will produce a financial resilience report.</p> <p>We will also consider any other significant developments at the Council such as the on-going organisational review and review of the procurement process so that they inform our conclusion.</p>
<p><b>Other areas of work</b></p> <p>Grant certification work 2012/13: We will undertake grants certification work in line with deadlines issued by the relevant Government Departments.</p>	June – November 2013	Not yet due	<p>We have developed a plan to audit those grants that require audit certification in accordance with Audit Commission guidance and Government Department deadlines.</p> <p>Our initial work on the Council's council tax and housing benefit claim has started as planned.</p>

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# Emerging issues and developments

## Accounting and audit issues

### Local government accounts timetable

The key dates in the local government accounts timetable are as follows:

- by 30 June - the responsible financial officer certifies the presentation of the draft statement of accounts
- by 30 September:
  - the responsible financial officer recertifies the presentation of the final statement of accounts before members' approval
  - members approve the statement of accounts
  - the statement of accounts is published, with the audit opinion, certificate and audit report if issued by the auditor.

The key dates for Whole of Government Accounts are:

- by 31 July - submission of unaudited WGA L-Pack by authority
- by 7 October - submission of audited WGA L-Pack by auditor

Issues for the Council to consider:

- Has your Acting Assistant Director 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?

# Emerging issues and developments

## Accounting and audit issues

### Carbon reduction commitment scheme

The Carbon Reduction Commitment (CRC) Energy Efficiency scheme is intended to improve energy efficiency and reduce emissions in line with the Climate Change Act 2008. Under the scheme, authorities need to buy allowances for their carbon dioxide (CO<sub>2</sub>) emissions. The CRC Scheme will not apply to every local authority, only those authorities covered by the CRC Scheme will need to implement the requirements. An authority will qualify as a CRC participant based on their half-hourly electricity usage.

Between June and July 2013 authorities will be able to purchase allowances for 2012/13, and in July 2013 participating local authorities are required to surrender purchased allowances in relation to CO<sub>2</sub> emissions reported for the financial year 2012/13.

IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*, requires that a provision is recognised when:

- an entity has a present obligation because of a past event. The obligating event occurs when an authority produces emissions that require it to purchase and surrender allowances in accordance with the CRC Scheme's requirements at the reporting date;
- it is probable that an outflow of economic benefit will be required to settle the obligation. The details of the scheme and the timetable for the transactions set out in the 'CRC Energy Efficiency Scheme (Allocation of Allowances for Payment) Regulations 2012' makes it probable that an outflow of resources will be required; and
- a reliable estimate can be made of the amount of the obligation. The Regulations confirm that the allowances will be priced at £12 per tonne of carbon dioxide. This makes it possible to estimate the amount of the obligation, provided the authority has arrangements in place to measure or estimate the level of CRC emissions in 2012/13.

As the obligation to meet CRC responsibilities arises during 2012/13, the obligation should be accounted for at 31 March 2013.

Any allowances held should be classified as either current intangible assets in accordance with section 4.5 of the Code, or, if held for the purpose of trading, as a current asset.

Issue for the Council to consider:

- Has your Acting Assistant Director Finance considered the need for additional provisions?



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# Emerging issues and developments

## Accounting and audit issues

### UK Public Sector Internal Audit Standards

From 1 April 2013, the UK Public Sector Internal Audit Standards (PSIAS) are to be used throughout the public sector. The PSIAS are based on existing International Standards for Internal Audit, but have been adapted for use in the public sector.

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The key changes are:

- the term 'chief audit executive' is used rather than 'head of internal audit' or 'chief internal auditor'.
- the requirement for an internal audit charter. This must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It will also cover arrangements for avoiding conflicts of interest if internal audit carries out any non-audit activities.
- there is no longer a requirement to produce an audit strategy. Instead, a risk-based plan must incorporate or be linked to a strategic or high-level statement which sets out how the internal audit service will be provided and developed in accordance with the charter and how it will link to the organisation's objectives and priorities.
- the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This includes internal and external assessments. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. The chief audit executive will have to include a statement on the results of the QA&IP in an annual report.

Issues for the Council to consider:

- Are plans in place to assess your internal audit function against the requirements of the PSIAS?
- How can you drive more organisational value from internal audit?
- Do you have an action plan in place to deal with any issues arising?

Grant Thornton can provide a review of internal audit effectiveness. If you have any queries, talk to your engagement manager to see how Grant Thornton could help.

# Emerging issues and developments

## Grant Thornton

### Local Government Governance report

In February, we published '[Local Government Governance Review 2013](#)', our second annual review into local government governance. The report is based on:

- survey responses from over 60 council senior officers and members on governance reporting and the supporting processes
- a desk top review of 2011/12 Annual Governance Statements and explanatory forewords for 153 councils, against our best practice checklists based on the CIPFA/SOLACE framework and guidance notes.

Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur. It inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

The key findings included:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council Annual Governance Statements follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises.
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

Issues for the Council to consider:

- Have you considered the findings of the report?
- What action do you plan to take to improve governance arrangements?

Grant Thornton can provide you with a bespoke, benchmarked governance review. If you have any queries on governance, talk to your engagement manager to see how Grant Thornton could help.

# Emerging issues and developments

## Local government guidance

### Financial sustainability of local authorities

In January, the National Audit Office published '[Financial sustainability of local authorities](#)'. The report examined central government's approach to local authority funding, and reviewed local authorities' financial sustainability against a background of changes to their funding. It has three parts:

- Funding local authority services - setting out the background to the current funding arrangements and the reduction in local authority funding from the government's 2010 spending review
- Local authority budget management - setting out how local authorities have responded to their reduced income
- Maintaining financial sustainability - covering the growing challenges to local authorities' financial sustainability, managing financial risks and opportunities, and the increasing need for central government to make informed decisions as financial and service pressures increase.

Some of the key findings were:

- so far, local authorities have absorbed reductions in central government funding but there is some evidence that services have been reduced
- local authorities may find it harder over the rest of the spending review period to absorb funding reductions and maintain services
- local authorities' ability to make savings while maintaining service levels depends on local circumstances
- by reducing ring-fencing of its grants, central government aims to give local authorities greater spending flexibility
- the government is making changes that create financial opportunities for local authorities but also increase their financial risks and uncertainty, for example, the partial localisation of business rates and the arrangements for council tax benefit
- the accountability framework for local government to address widespread financial failure is untested.

Issue for the Council to consider:

- Can your authority learn from how other local authorities have responded to their reduced income?

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# Emerging issues and developments

## Local government guidance

### Pay policy statements

The Secretary of State for Communities and Local Government has issued [supplementary guidance on pay policy statements](#) for 2012/13 which highlights:

- members should ensure that pay policy statements are set out clearly, that they fully address all of the requirements of the Localism Act 2011 and accompanying guidance, and are accessible.
- full Council should be given the opportunity to vote on salary packages of £100,000 or more. Those authorities who may not have senior posts over £100,000 should seek to achieve the same degree of openness and accountability by adopting a lower threshold for votes, appropriate to their local circumstances.
- full Council should also be given the opportunity to vote on severance payments over £100,000.
- where councils have directly elected mayors, they would involve the directly elected mayor and have regard to any proposals the mayor may have before the statement is considered and approved.

Issue for the Council to consider:

- Have you considered how to improve the clarity and value of the information your authority is publishing?

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# Emerging issues and developments

## Local government guidance

### Councillors on the frontline

The government has responded to the [Select Committee report](#) on the role councillors play in the community.

Some of the matters raised by the Select Committee were as follows:

- In supporting their communities, councillors should be working closely with external organisations and providers of public services.
- It urges all councils to consider how best to provide support to their councillors and assist them to ensure they have an active role in their communities.
- It is a matter of concern that the composition of many councils does not reflect that of the communities they serve.
- Local authorities should be actively promoting democratic engagement and explaining to the public what the role of a councillor entails.
- encourage local authorities to put in place light touch arrangements for reporting councillor performance. As part of this, councillors could be asked to complete a brief annual self-assessment to be made public in an accessible format. This should cover not only attendance at formal meetings, but also details of the work councillors have carried out within their communities.
- Encourage political parties, local authorities and other bodies to review the training they offer to ensure it meets the needs of councillors. In particular, training should reflect the changing roles of councillors, and ensure that councillors understand the implications of the Localism Act 2011 and other new legislation. Also suggest that councillors make public details of any training they have completed in the course of the preceding year. Training should be seen as a benefit, not a cost, to local taxpayers.
- Training should be provided to potential candidates before they stand for election, to give them some knowledge of what they can expect
- Councillors should be at the centre of community life, well known and respected by those they represent, and empowered to effect change within their local areas.

Issues for the Council to consider:

- What can your authority do to improve the role played by councillors in the community?
- Has your authority developed an action plan?

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# Emerging issues and developments

## Local government guidance

### Draft local audit bill

The Draft Local Audit Bill was published last year to enable consultation and pre-legislative scrutiny. In January, the Draft Local Audit Bill ad hoc Committee published 'Pre-Legislative Scrutiny of the Draft Local Audit Bill'. The Committee concluded that a number of areas required further examination – most significantly the independent appointment of auditors. The Government plans to introduce the new regulatory regime in 2015/16.

The proposals include the following:

- The Financial Reporting Council will act as the overall regulator for auditors and the National Audit Office will set the code of audit practice.
- From 1 April 2017, local government bodies will appoint their own auditors, in consultation with an independent auditor panel.
- In addition to giving their opinion on the financial statements, auditors will continue to have wider responsibilities. These include considering the arrangements for securing economy, efficiency and effectiveness in their use of resources and having the duty to report in the public interest.

The draft bill is still to go through Parliament for approval.

Issue for the Council to consider:

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



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