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AUDIT AND GOVERNANCE COMMITTEE

21 June 2013

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Committee Room 1 - Marmion House on Thursday, 27th June, 2013 at 6.00 pm**. Members of the Committee are requested to attend.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A. D. D.' with a flourish.

A G E N D A

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- 3 Responses from Fraud Questionnaire** (Pages 1 - 22)
(Report of Grant Thornton (External Auditor) to be presented at the meeting)

- 5 Interim Audit Work Update** (Pages 23 - 36)
(Report of Grant Thornton (External Auditor))

People who have a disability and who would like to attend the meeting should contact Democratic Services on 01827 709264 or e-mail committees@tamworth.gov.uk preferably 24 hours prior to the meeting. We can then endeavour to ensure that any particular requirements you may have are catered for.

To Councillors: M Couchman, K Gant, M Gant, S People, S Pritchard, P Seekings and M Thurgood



**Auditing Standards – Communication
with the Audit and Governance
Committee**

Tamworth Borough Council

Audit year 2012/13

Last updated 1 May 2013

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Introduction

The purpose of this report is to ensure there is effective two-way communication between the Council's Audit and Governance Committee, who are 'those charged with governance' and the Engagement Lead, the Council's external auditor.

As your external auditors we have a responsibility under professional auditing standards to ensure there is effective communication with the Audit and Governance Committee. This means developing a good working relationship with Committee members, while maintaining our independence and objectivity. If this relationship works well it helps us obtain information relevant to our audit and helps Audit and Governance Committee members to fulfil their financial reporting responsibilities. The overall outcome is to reduce the risk of material misstatement.

In planning and performing our audit of the financial statements we need to understand how the Audit and Governance Committee, supported by the Council's management, meets its responsibilities in the following areas.

- Fraud
- Law and regulation
- Going concern
- Related parties
- Accounting for estimates

This report summarises the Audit and Governance Committee's, management's and the external auditor's responsibilities in each of these areas, as explained in the International Standards on Auditing (UK and Ireland) (ISAs). Our primary responsibility is to consider the risk of material misstatement.

Each section of the report includes a series of questions that management have responded to. We would like to ask the Audit and Governance Committee to consider these responses and confirm that it is satisfied with the arrangements.

Fraud Risk Assessment

The ISAs define fraud as:

"An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."

[ISA (UK&I) 240, paragraph 11]

The primary responsibility to prevent and detect fraud is with the Audit and Governance Committee and the Council's management. To do this:

- management need to ensure there is a strong emphasis on fraud prevention and deterrence, with a commitment to honest and ethical behaviour; and

- the Audit and Governance Committee oversight needs to include the potential for the override of controls and inappropriate influence over the financial reporting process.

As your auditors our overall responsibility is to ensure the Council's financial statements are free from material misstatement due to either fraud or error. We are required to maintain professional scepticism throughout the audit, which means considering the potential for the intentional manipulation of the financial statements.

We are also required to carry out a fraud risk assessment to inform our audit approach. This includes considering the following:

- How management assesses the risk of material misstatement in the financial statements due to fraud.
- Management's response to assessed fraud risk, including any identified specific risks.
- The investigations into the NFI data matches and subsequent outcomes.
- How management communicates its process for assessing and responding to fraud risk to the Audit and Governance Committee.
- How management communicates its views on ethical behaviour to Officers.
- How the Audit and Governance Committee exercises oversight of management's fraud risk assessment and response processes and the internal controls to mitigate these risks.
- What knowledge the Audit and Governance Committee has of actual, alleged or suspected fraud.

To help us in making our fraud risk assessment management have responded to the following questions.

Table 1 - Fraud Risk Assessment

Question	Management response
<p>1. What is management’s assessment of the risk of material misstatement in the financial statements due to fraud?</p>	<p>Management receive the following reports / actions in informing the assessment that the financial reports are not misstated due to fraud</p> <ul style="list-style-type: none"> a) Internal Audit’s risk assessment arising from the reviews to inform the Annual Governance Statement; b) Quarterly reports are received from the Head of Internal Audit Services (HIAS) on systems reviewed (including the key / core financial systems) within the quarter. High risk areas are identified. Follow-up of implementation of control risks are undertaken in a timely manner. HIAS opinion on the system of internal control given quarterly; c) An Annual Governance Statement - assurance gathering process involves assessing against the objectives, manager’s providing assurance statements identifying key control issues affecting their operational processes; d) External Audit Reports - including the assessment of controls as stated in the Annual Audit & Inspection Letter inform the conclusion on adequacy of the internal control process; e) Financial Accounts reports / reviews identifying key areas of activity and where appropriate risk implications and variance analysis including the review of draft accounts / analytical review (S151 & Deputy S151) and appropriate working papers where necessary – as part of the quality assessment review ; f) The Final Account Planning & compliance process gives assurance on the key accounting and review processes undertaken in the planned delivery of the final accounts. Copy of implementation plan agreed & monitored by members. The Final Account Delivery Plan (key actions, deliveries, implications & deadlines) identifies key deliverables and issues arising from the preparation process which are reported to CMT & Members; g) Copy of Final Account documents (including previous year comparators) – material issues / explanations are reported to Audit & Governance Committee; h) Advice / information on changes in Accounting Policy that impact on the financial statements (issues affecting comparator variances). i) Compliance reviews are undertaken to the accounting code of practice (IFRS); <p>External Audit report to the Audit & Governance Committee on their reliance placed on the work of Internal Audit – this therefore increase reliance on standard and quality of audit reports and their reviews of control systems.</p>

Question	Management response
<p>Is this consistent with the feedback from your risk management processes?</p> <p>2. Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2012?</p>	<p>Yes, quality assurance carried out as part of the accounts production process which reduces the risk of misstatement. Internal audit work with management in self -assessment of key risks. Identification of key risks in production of accounts including feedback from review of previous year's process. Management review of journals processed.</p> <p>No - Management is made aware of any actual or alleged instances of fraud via the following :-</p> <p>a) S151 Officer is informed of suspected or alleged areas of fraud from the following sources :-</p> <ol style="list-style-type: none"> 1) Whistle Blowing / informants, 2) Benefits Fraud Investigations 3) Management – identification of irregularities 4) Internal Audit – reports / reviews <p>Appropriate action is then to investigate all allegations:</p> <p>b) Any areas of actual fraud will be / are reported to the Audit & Governance Committee as part of the normal quarterly monitoring/reporting process as well senior management and police (where appropriate);</p> <p>c) Requirement of Managers / officers / Members to report to S151 any suspicions / allegations of fraud for appropriate investigation.</p> <p>For the year ended 31st March 2013 there have been no material frauds identified by management or from work undertaken by Internal Audit or Whistle Blowing other than work undertaken by the Benefits Fraud Investigation Unit (Housing Benefits).</p>
<p>3. Do you suspect fraud may be occurring, either within the Council or within specific departments?</p> <p>– Have you identified any specific fraud risks?</p>	<p>No</p> <p>Internal Audit has a fraud risk register updated quarterly. We are aware of areas where fraud has increased e.g. changes to creditor bank details - staff working in this area are also aware of the increased risk. E-learning solution to be rolled out summer 2013.</p> <p>In addition there are not many areas where cash is handled – this happens only at the castle or the TIC and no concerns have been highlighted there.</p>

Question	Management response
<p>– Do you have any concerns there are areas that are at risk of fraud?</p> <p>– Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>No</p> <p>Changes to creditor bank details - staff working in this area are also aware of the increased risk. E-learning solution to be rolled out summer 2013.</p> <p>In addition there are not many areas where cash is handled – this happens only at the castle or the TIC and no concerns have been highlighted there. New operations e.g. golf course have been considered.</p>
<p>4. Are you satisfied that the overall control environment, including:</p> <ul style="list-style-type: none"> - the process for reviewing the system of internal control; - internal controls, including segregation of duties; exist and work effectively? – If not where are the risk areas? – What other controls are in place to help prevent, deter or detect fraud? 	<p>Yes</p> <p>Financial Guidance in place & regularly reviewed / monitored</p> <p>Counter Fraud & Corruption & Whistleblowing policies in place (reviewed 2012)</p> <p>System access control at local level</p> <p>Monthly financial monitoring & review and exception reporting</p> <p>NFI & NAFN reviews including payments monitoring</p> <p>Review of higher value journals</p> <p>Segregation of duties / 2 person authorisation requirements (to deter fraud / collusion)</p> <p>Effective Internal Audit function reviewing key controls</p> <p>Internal controls within Services</p> <p>Self assessments are carried out to identify potential weaknesses</p> <p>Procurement Strategy updated during 2012/13 for approval by Cabinet – including roll out of quick quote process for procurement over £2k</p> <p>The following policies, documents and reports are the Authority’s response to identifying and responding to risks of fraud in the organisation.</p> <p>Management confirm the following :</p> <ol style="list-style-type: none"> a) Copies of the Counter Fraud & Corruption Policy Statement & Strategy (and guidance notes) & Whistleblowing Policy – are regularly reviewed and updated and made available to all staff (through the use of Net Consent – Policy Document and acceptance system). They are also available on the website and therefore available to the public and contractors to the authority.; b) Financial Guidance is regularly reviewed / updated and approved by CMT & Members and is available to all staff (as guide to appropriate actions / expectations re officer actions); c) The Authority undertakes National Fraud Initiatives / updates and Audit Commission circulars are reviewed to identify potential fraudulent activity; d) External Audit Reports on the issues / risks identified in the annual review of Financial Statements; e) Management Assurance Statements (Control / risk

Question	Management response
	<p>environment) are obtained and reviewed as part of the Governance & Accounts process - ongoing reviews are undertaken by Internal Control (system review, system testing & investigation);</p> <ul style="list-style-type: none"> f) Internal Audit Risk Assessments are undertaken and recorded in the Fraud / Risk Register; g) Updates / notifications as part of the Whistle blowing / Counter Fraud & Corruption Policy; h) Adequate segregation of duties as determined by Financial Guidance(managers assurance, internal audit control assessment / system reviews). <p>Having in place an Internal control assessment function (Internal Audit) providing assurance on control environments – as identified in through internal system review in line with the Annual Audit Plan</p>
<p>5. How do you communicate to employees about your views on business practices and ethical behaviour?</p> <p>How do you encourage staff to report their concerns about fraud?</p>	<ul style="list-style-type: none"> a) Employees are made aware of the communication process (through NetConsent) of all the key Council policies including the Counter Fraud and Corruption Policy Statement & Strategy and Whistleblowing Policy – this a mandatory process – compliance is reported and monitored, where appropriate additional training is given; b) Employee induction training process completed (as part of Members Induction training, specific training for standards/code of conduct has also been completed) employees made aware through financial guidance, and other financial policy of best practice and ethical behaviour ; c) Financial Guidance is reviewed and approved by members and is available to all staff / members on intra-net (and hard copy if required); d) On-going awareness and dissemination of good practice etc circulated via Core Brief Process, officer fraud updates / best practice and Internal Audit & External Audit Reports (including risk assessment / recommendations & management responses and external publications ie Audit Commission Circulars); <p>Development of e- learning modules for Counter Fraud & Corruption and Whistle Blowing – employee training & understanding.</p> <p>Encouraged via whistle-blowing procedures and/or Counter fraud and corruption policy statement & strategy - both documents are available on the intranet. The Counter Fraud & Corruption Policy Statement & Strategy was notified to staff for 2012/13 using netconsent policy management system which requires response from staff which will be logged and followed up on the system. Staff are be required to accept the policy and are required to report any concerns. The Whistleblowing Policy will be deployed to staff early in</p>

Question	Management response
<p>– What concerns are staff expected to report about fraud?</p>	<p>2013/14 using the same method. We will roll out e-learning solution which covers counter fraud and whistleblowing in 2013/14. The e-learning solution has a series of questions to confirm staff and members understanding and will be linked to the NetConsent Policy Management system to enable us to track acceptance and understanding. This will inform us of additional training requirements needed. Employees receive access to a pc or appropriate awareness briefings from management.</p> <p>Any & all concerns should be reported</p>
<p>6. From a fraud and corruption perspective, what are considered to be high-risk posts? – How are the risks relating to these posts identified, assessed and managed?</p>	<p>Senior Management positions (authorisations required) Treasury Management (Fidelity Guarantee insurance in place) All benefits staff.</p> <p>Risks are managed by: Segregation / secondary control check Internal Audit Monitoring / S151 Officer function Annual Governance Assurance statement requirements for senior managers Scheme of Delegation reviews Peer review / Member challenge</p>
<p>7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? – How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Annual request to Senior Management and all Members of the Council for the accounts. All members have to disclose any interest when making decisions. Monitoring officer has to keep a register of members interests. Transparency requirements / publications & public interest disclosures There is unlikely to be a risk due to controls over recording relationships and members required to complete annual declarations of interest. Controls over income and expenditure, contracts and so on deemed to mitigate the risks. Segregation of duties in decision making.</p>
<p>8. What arrangements are in place to report fraud issues to Audit and Governance Committee?</p>	<p>Audit & Governance Members (including relevant Council Officers) receive the following information / communication in order to raise / inform</p> <ul style="list-style-type: none"> a) Quarterly Fraud update provided to the Committee including NFI; b) Audit & Governance Committees Terms Of Reference state that they will monitor the effectiveness of anti fraud & corruption arrangements. This is achieved / discharged through the Audit & Governance Committee approving the

Question	Management response
	<p>Counter Fraud and Corruption Strategy Policy Statement and Guidance Notes and the Whistleblowing Policy – on a regular basis;</p> <p>c) Head of Internal Audit Services opinion on the control environment given on a quarterly basis.</p> <p>Pro-active annual Internal Audit plan based on “Risk Based Audit” to review key activity areas of operation of the Authority to give assurance that adequate internal controls are in place which should detect and prevent/ deter fraud activity.</p>

Law and Regulation

The ISAs (ISA (UK&I) 250) require us to consider the impact that law and regulation and litigation may have on the Council's financial statements. The factors that may result in particular risks of material misstatement due to fraud or error are:

- the operational regulatory framework - this covers the legislation that governs the operations of the Council.
- the financial reporting framework - according to the requirements of International Financial Reporting Standards, the Code of Accounting for Local Authorities in England and relevant Directions.
- taxation considerations - for example compliance with Value Added Tax and Income Tax regulations.
- government policies that otherwise impact on the Council's business.
- other external factors; and
- litigation and claims against the Council.

Where we become aware of information about a possible instance of non-compliance we need to gain an understanding of it to evaluate the possible effect on the financial statements.

The ISAs also require us to make enquiries of management and the Audit and Governance Committee about the arrangements in place to comply with law and regulation. To help with this, management have responded to the following questions.

Table 2: Law and Regulation

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<ul style="list-style-type: none"> a) Quarterly reports are received from the HIAS on systems reviewed. High risk areas are identified; b) The Annual Governance Statement assurance gathering process involves assessing against the objectives and managers providing assurance statements; c) The Monitoring Officer’s independent reporting on relevant compliance with laws – also attends the Audit & Governance Committee meetings and advises appropriately; d) The External Auditor review and assurance opinion on the financial affairs (management processes) of the Authority s attend all Committee meetings. e) Re Council & Cabinet reports both the Monitoring Officer & Finance Officer are required (subject to options) to sign – off report prior to members approving recommendations – to identify that proposed actions comply to legislative requirements; f) Periodic update to Officers / Members on new legislative requirements; g) Regular update by external Audit on potential compliance issues / understanding; h) Undertaking NFI Anti Fraud initiatives – indicating potential fraudulent violations; i) Pro-active Internal Audit Plan focused on provision of assurance reports on status of management control processes; <p>Regular review and update of Financial Guidance and Counter Fraud Policies.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer’s independent reporting on relevant compliance with laws – also attends the Audit & Governance Committee meetings and advises all Members appropriately.</p>
<p>3. Have there been any instances of noncompliance with law and regulation since 1 April 2012?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The following potential claims / litigation action that may affect the financial statements for the year ended 31st March 2013 are (to be confirmed) :-</p> <ul style="list-style-type: none"> a) Morrisons (Housing Repairs Contract) circa £50k – disputed contract credits – reserve set up in 2010 / 11 to cover additional costs to HRA; b) £168k pensions underpayment liability to SCC

Question	Management response
	<p>Pensions regarding the Morrisons contract. We still have some issues for confirmation with SCC re: Morrisons pension contributions payment profile in previous years for offsetting £168k;</p> <p>c) Land charges – c. £108k contingent liability / provision for legal action claims arising from change in legislation (temporary reserve has been set up);</p> <p>d) Ongoing Insurance action / outstanding settlements;</p> <p>e) Icelandic Investment Recovery – Re Glitnir (escrow release) & Heritable & KSF as covered in impairment costings.</p> <p>f) MMI – the position following a recent court ruling has changed. Our current estimated liability for clawback under the scheme of arrangement is estimated as approx. 15% of the £252k exposure.</p> <p>The Solicitor to the Council has been requested to identify whether she is aware of any other issues – she has confirmed that none have been identified to date.</p>

Going Concern

Going concern is a key concept in the preparation of the financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is, the basis on which those assets and liabilities are recorded and included in the accounts).

The going concern assumption is a fundamental principle in the preparation of financial statements. Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long-term liabilities would become short term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an ongoing basis.

We discuss the going concern assumption with key Council officers and review the Council's financial and operating performance. Below are key questions on the going concern assumption which we would like the Audit and Governance Committee to consider.

Table 3 – Going concern

Question	Management response
<p>1. Has a report been received from management forming a view on going concern?</p>	<p>The Executive Director Corporate Services (as s151 Officer) is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>The Financial Plan is agreed at the same time as the Corporate Plan. The financial plan makes clear reference to the Corporate Plan as the basis for the financial considerations in setting the medium term budget. The financial assumptions are therefore consistent with the Council Plan. Reports in year are consistent with the budget set.</p>
<p>3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>The financial plan considered explicitly the government changes in terms of grants. The plan sets out the likely implications of the Governments Resources Review (including welfare benefit reform and localisation of council tax support and business rates) and other changes to local government finance. Policy changes are detailed within the report. Sensitivity analysis for grant and other income and expenditure included.</p>
<p>4. Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No</p>
<p>5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>No</p>

Question	Management response
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council’s objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes – PDR process and person specifications include assessment of relevant skills. Capacity issues are raised and discussed on a regular basis including in risk assessments e.g. dealing with benefits claims</p>

Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation; these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: Related party disclosures. The Code identifies the following as related parties to local government bodies:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures in which the authority is a venturer;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the authority and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Table 4 - Related Parties

Question	Management response
<p>1. Who are the Council's related parties?</p>	<p>The Council discloses its related parties under the following headings:</p> <p>(1) Government - central government has control influence over the Council as the Council needs to act in accordance with its statutory responsibilities.</p> <p>(2) Precepts & Levies - these parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy.</p> <p>(3) Joint Ventures - the Council has the potential to influence the other parties through a joint relationship..</p> <p>(4) Assisted Organisations - the provision of financial assistance by the Council to such parties or voluntary organisations may give the Council influence on how the funds are to be administered and applied.</p>
<p>2. What are the controls in place to identify, account for, and disclose, related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> ■ Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. ■ Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests. ■ Monitoring officer has to keep a register of members interests. ■ Challenge from public

Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations.	Valuations are made by the internal valuer (local RICS Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews.	Chief Accountant notifies the valuer of the program of rolling valuations or any conditions that warrant an interim re-valuation.	Use the Internal local RICS Member. Use of External valuer (Housing stock). ICT Acquisitions. Heritage Assets valuations. Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance - reliance on expert. ICT purchases at cost HA-Use of valuation (inflated) or cost	No although external valuer changed in 2013 resulting from tender exercise (& resulting revised procedures / desk top review of remaining properties).
Estimated remaining useful lives of PPE.	The following asset categories have general asset lives: <ul style="list-style-type: none"> ■ Housing stock 50 years ■ Other Buildings 5 to 100 years ■ Vehicles, plant & equipment 1 to 20 years ■ Community 100 years ■ ICT Equipment 3 years ■ Infrastructure 30 years. 	Chief Accountant discusses with the valuer / external auditor.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS Member.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation & Amortisation.	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	The length of the life is determined at the point of acquisition or revaluation according to: <ul style="list-style-type: none"> ■ Assets acquired in year are depreciated on the basis of a charge from acquisition date. ■ Assets that are not fully constructed are not depreciated until they are brought into use. 	No.
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed in year (e.g. garage sites) and at each year-end as to whether there is any indication that an asset may be impaired.	Use the Internal local RICS Member for valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance - reliance on expert.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non adjusting events - events after the BS date	S151 Officer makes the assessment. If the event is indicative of conditions, that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect	Heads of Services notify the S151 Officer	This would be considered on individual circumstances. Discussions with Sector / External auditor	This would be considered on. Individual circumstances.	N/A
Overhead allocation.	The Finance Team apportion central support costs to services based on fixed bases as detailed in the 'Allocation Summary' spread sheet.	All support service cost centres are allocated according to the agreed 'Allocation Summary' spread sheet.	No	Apportionment bases are reviewed each year to ensure equitable	No
Measurement of Financial Instruments.	Council values financial instruments at fair value based on the advice of their external treasury consultants and other finance professionals.	Take advice from finance professionals.	Yes – Sector / PWLB	Take advice from finance professionals.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision.	A provision is estimated using a proportion basis of an aged debt listing.	Revenues provide the aged debt listing and Finance calculate the provision.	No	Consistent proportion used across aged debt as per the SORP. Business Rates – each case (limited number) assessed to determine estimated recoverable amount	Yes for Business Rates – each case (limited number) assessed to determine estimated recoverable amount
Provisions for liabilities.	Provisions are made where an event has taken place that <ul style="list-style-type: none"> ■ gives the Council a legal or constructive obligation ■ that probably requires settlement by a transfer of economic benefits or service potential, and ■ a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (c.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance collate accruals of Expenditure and Income. Activity is accounted for in the financial year that it takes place, not when money is paid or received. Creditor liability - based on copy invoice / documentation (to check auto accruals over £500 & payments in March / April over £5,000 set minimum level)	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Landfill Allowance liability.	N/A	N/A	N/A	N/A	N/A
Pension liability	The Council is admitted body to the Staffordshire Local Government Pension Scheme. The administering authority (the County Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No

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Audit and Governance Committee Update for Tamworth Borough Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

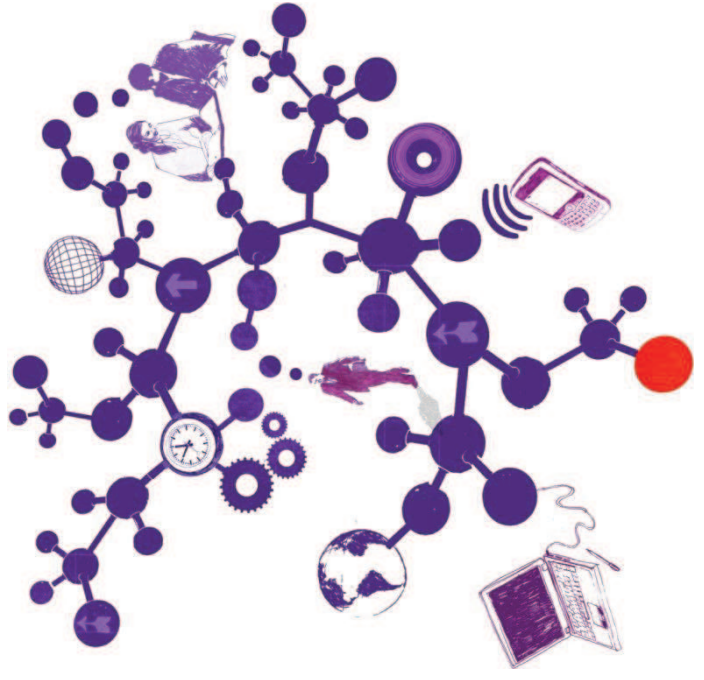
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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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 Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance 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 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. Their contact details are provided on the front cover of this report.

Progress at 27 June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 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 2012-13 financial statements.</p>	Issued to the Committee on 28 March 2013	Yes	
<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 • proposed Value for Money conclusion. 	January and March 2013	Yes	Our interim work has not identified any issues.
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	Audit visit commences 8 July 2013	Not yet started	

Progress at 27 June 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • undertaking a detailed risk assessment which will support our overall conclusion • undertaking a financial resilience review 			
<p>Other areas of work</p> <p>We are required to certify the following claims and returns:</p> <p>Housing and Council Tax Benefits; and National Non Domestic Rates</p>	Both to be completed by 30 September 2013	Not yet	We have commenced our work on the Housing and Council Tax Benefits claim. Your Head of Benefits has been very helpful by undertaking some of the detailed work which we are currently reviewing.

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 96](#). The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013
- accounting for carbon reduction commitment (CRC) energy efficiency scheme assets

Challenge question:

- Has your Executive Director Corporate Services and your Director of Finance reviewed the guidance and assessed the potential impact for your financial statements?

Emerging issues and developments

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Executive Director Corporate Services and your Director of Finance aware of the changes to the 2013/14 Code and assessed the potential impact?
- In particular, has your Executive Director Corporate Services and your Director of Finance consulted:
 - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
 - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a [set of case studies](#), available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the Audit and Governance Committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- How can you drive more organisational value from internal audit?

Emerging issues and developments

Grant Thornton

Use of Outsourced IT Services (information only as the Council has none)

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within the Local Government sector. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- a major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- a large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

Emerging issues and developments

Local government guidance

2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its [2010/11 WGA report](#) - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.
- DCLG published an unaudited consolidated account for [English Local Government 2010/11](#) - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

Challenge question:

- Has your Executive Director Corporate Services considered these reports and any lessons for the authority?
- Has your Executive Director Corporate Services produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

The National Audit Office has published ['Fact Sheet: Governance Statements: good practice observations from our audits'](#) providing insight and commentary on the first year of Governance Statement reporting observations on good practice "challenge questions" for those whose role it is to oversee and scrutinise an organisation's Governance Statement.

Challenge questions:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Emerging issues and developments

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published '[Openness and transparency on personal interests - A guide for councillors](#)'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question:

- What has your authority done to improve awareness of openness and transparency requirements for councillors?



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