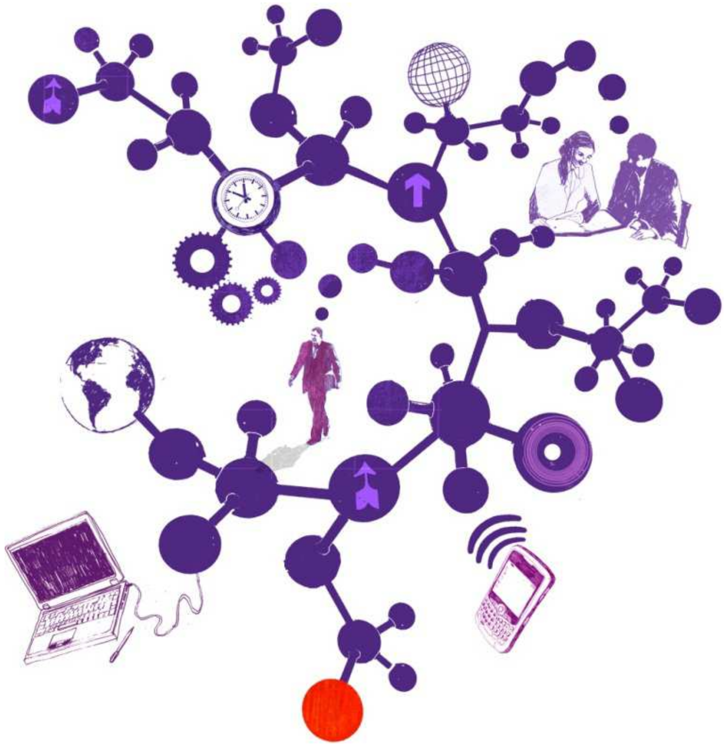
Audit Committee Update for Plymouth City Council

Year ended 31 March 2015

Committee Date: 18 December 2014



John Golding
Partner and Engagement Lead
T 0117 305 7802
E john.golding@uk.gt.com

David Bray
Senior Audit Manager
T 07880 456 126
E david.bray@uk.gt.com

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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 Unitary Council
- 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 referred to in these updates.

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.

Progress at 4 December 2014

Work	Due By	Complete	Comments
2013-14 final accounts audit and VFM Conclusion Including: • audit of the 2013-14 financial statements • detailed work to support the VFM conclusion • opinion on the Council's accounts • Value for Money conclusion.	September 2014	Complete	We reported the results of our work to the Council's Audit Committee on 25 September 2014 in our Audit Findings Report. On 29 September 2014 we issued an unqualified opinion on the Council's financial statements for the year ended 31 March 2014 and an unqualified VFM Conclusion. The results of our are audit are summarised in our Annual Audit Letter, which we will present to the Audit Committee on 18 December 2014.
2013-14 certification work This work is expected to cover: • Housing benefits	November 2014	Complete	The results of our this work is summarised in our certification report, which we will present to the Audit Committee on 18 December 2014.
2014-15 audit This work will cover • audit of the 2014-15 financial statements • detailed work to support the VFM conclusion • certification work	September 2015 November 2015	Not yet due	We have met with your finance team on two occasions to discuss the emerging issues for 2014/15. We hosted a seminar in Taunton on 2 December 2014 to cover accounting for Schools and Infrastructure assets and this was attended by Plymouth City Council. A follow-up event is being held in Plymouth on 5 January 2015.

Accounting and audit issues

Accounting for schools

The debate about which school land and buildings should be recognised on local authority balance sheets (which most commentators had thought settled) has been reignited. Grant Thornton is taking a leading role in trying to resolve this unexpected development.

In March 2014, CIPFA/LASAAC Code concluded that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities that need to be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the CIPFA/LASAAC Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. The general expectation in the sector was that:

- the vast majority of voluntary aided, voluntary controlled and foundation schools would be recognised on local authority balance sheets
- a small number of school buildings that are provided at no charge by a religious body and where there was a realistic possibility that they would be taken back by their owners would be treated as assets of the religious body and so not recognised on the local authority balance sheet.

However, at the CIPFA conference in November 2014, CIPFA clarified that it considers that most voluntary aided and voluntary controlled school buildings would **not** be recognised on the balance sheet. This is because the religious bodies have a legal right to take back these assets. Nor does CIPFA consider the position for foundation school buildings to be clear cut and local judgement would need to be applied. We have not seen evidence that would support the view taken by CIPFA and have concerns about:

- whether the treatment proposed by CIPFA actually complies with the Code
- the significant practical implications for the sector
- the potential for inconsistent accounting treatments depending on local judgement.

We are taking a leading role in discussions with the Audit Commission, CIPFA and the other audit suppliers to try to seek a practical way forward as soon as possible.

Accounting and audit issues

Accounting for schools (cont'd)

We will continue to share the latest developments with officers. In the mean time we would recommend that you continue your preparations for recognising school land and building including:

- identifying those schools where school buildings are owned by third parties (such as church dioceses) and determining under what circumstances the buildings could be taken back by the third party
- obtaining valuations for school land and buildings for each of the three balance sheet dates (1 April 2013, 31 March 2014, 31 March 2015)
- obtaining sufficient information to enable the authority to restate its revaluation reserve and capital adjustment account.

Issue to consider

- Has your finance team put in place a plan to address the potential changes in accounting for schools?

Accounting and audit issues

Group accounting standards

The Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over other entities. This is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follow IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over other entities

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in other entities will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Accounting and audit issues

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- under IAS 31 joint ventures were legal entities. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. In a joint operation the investing parties have rights and obligations in relation to the arrangement’s assets and liabilities, whereas in a joint venture the parties have rights to the arrangement’s net assets
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Issue to consider

- Has your finance team assessed the potential impact of these standards for the authority's financial statements?

Accounting and audit issues

Early close

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Issue to consider

- Has your finance team put in place a plan to address the earlier close date?

Place Analytics – Understanding Growth

Invitation to a local Grant Thornton seminar

In a recent survey, chief executives and leaders were asked a simple question: what do you see as the future primary purpose of local government?

72% answered *"as a leader of place driving investment and stimulating economic regeneration."*

This is simple to say, but difficult to define and very difficult to measure.

With the drive to increase efficiency, improve service quality and enable collaboration between organisations, a better and shared understanding of people and places has never been more important. Yet the resources available to inform this understanding have never been more stretched.

It is in this context that we have launched our new Place Analytics service. Incorporating all of the data and tools necessary to shape a comprehensive understanding of your place, and the people who live there, it puts at your fingertips a powerful Insight Engine that can be used to inform policy-making and decision-making.

We are holding two seminars in the South West – on 8 December 2014 in Taunton and on 15 December 2014 in Bristol – to demonstrate the value of Place Analytics. We will provide a comprehensive analysis of the South West, from economic, social and environmental perspectives and will also provide an assessment of performance on our High Growth Index – with an opportunity to discuss the findings and policy implications.

We have sent invitations to all Chief Financial Officers and Heads of Economic Development.

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