

Audit Committee Update

Year ended 31 March 2015

July 2015

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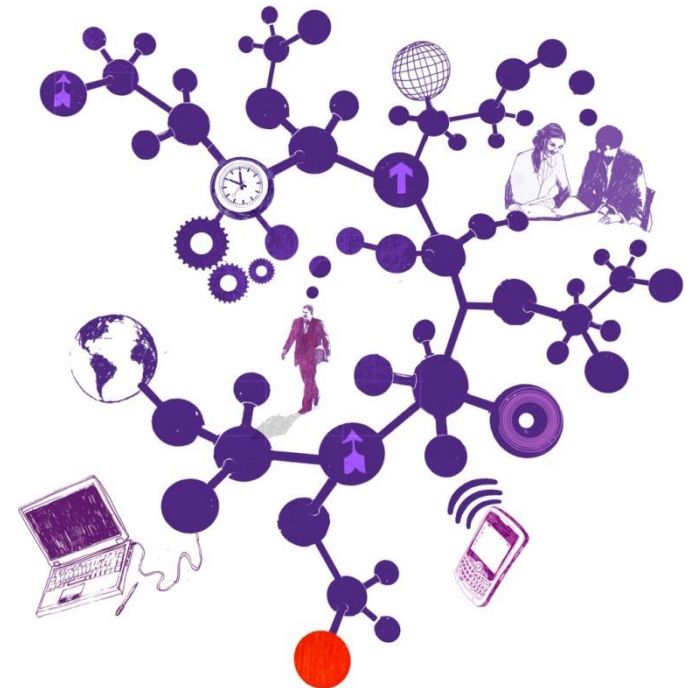
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Introduction

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; and
- 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, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Spreading their wings: building a successful local authority trading company
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- Creating a sustainable financial future: the report provides a summary of how current funding models have struggled and what would be needed in the future to create a sustainable model
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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 July 2015

| Work | Planned date | Complete? | Comments |
|---|---------------------------|-----------|--|
| <p>2014-15 Accounts Audit Plan</p> <p>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 2014-15 financial statements.</p> | March 2015 | Yes | Audit Plan presented to Finance and Audit Scrutiny Committee 10 th March 2015. |
| <p>Interim accounts audit</p> <p>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, and • early substantive testing. | February and March 2015 | Yes | We have completed the work scheduled for our interim visit. Key findings from the interim audit were included within the audit plan that was presented to Finance and Audit Scrutiny. |
| <p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements, and • proposed opinion on the Council 's accounts. | August and September 2015 | No | <p>We have discussed with officers the working papers required for the audit of the financial statements and formalised the request in a working paper checklist document.</p> <p>We have met with officers since the completion of the interim audit to discuss ways the accounts can be 'decluttered'. We have reviewed draft skeleton accounts and made suggestions where further streamlining could take place.</p> <p>We have met with the Head of Internal Audit and shared examples of other Annual Governance Statements, again with a view to simplification and a more streamlined version. We have commented on an early draft of the document.</p> |

Progress at July 2015

| Work | Planned date | Complete? | Comments |
|---|--|----------------|--|
| <p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Completion of an initial risk assessment • A review of our understanding of your processes in relation to securing financial resilience • A review of our understanding of your processes in relation to securing economy, efficiency and effectiveness, • A review of key documents, such as the medium term financial plan and the risk register, and • Follow up of any residual risks raised last year. | <p>April and May, with a final update in September prior to giving the conclusion.</p> | <p>In part</p> | <p>The initial risk assessment has now been completed and we have requested information from officers in a number of key areas.</p> |
| <p>Other areas of work</p> <p>As part of the 2013/14 financial statements work we received four different objections to the accounts from members of the public. As a result we have been unable to issue the audit certificate that certifies the closure of the audit.</p> <p>We have now determined three out of the four objections. In each case we have issued a statement of reasons which details our view on the questions raised and why we have taken no further action.</p> | <p>June 2015</p> | <p>In part</p> | <p>While we have undertaken considerable work in relation to the fourth objection, we are unable to finalise this until the on-going legal processes between the Council and the objector have been concluded.</p> |
| <p>Other activity undertaken</p> <p>Officers have raised a number of technical accounting queries in relation to the housing revenue account.</p> | | <p>Yes</p> | <p>We have provided officers with a detailed technical view on their questions.</p> |

Emerging issues and developments

All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

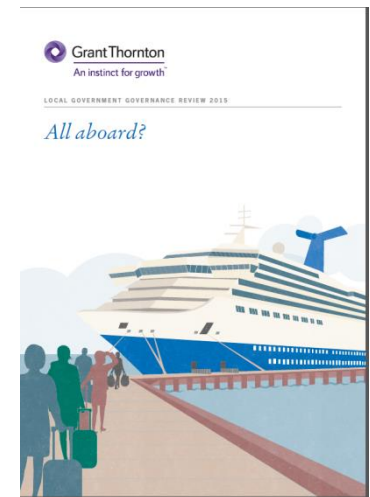
Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Challenge question

Have members been briefed by your Head of Finance on the key findings of the Independent Commission's final report?

DCLG – Build to rent scheme

Local government issues

Housing Minister Lewis Brandon announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion [Build to Rent scheme](#), which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".

As part of its strategy of creating a bigger and better private rented sector the government has also

- published a [How to rent](#) guide, so tenants and landlords know their rights and what to expect when renting privately
- published a [model tenancy agreement](#), so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Challenge question

Have members been briefed by the Head of Finance on the government's Build to Rent scheme and other aspects of its initiative to increase the private sector housing market and its implications for the authority's housing strategy?

Provision for Business Rates Appeals

Accounting and audit issues

Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

Challenge questions

- Has your Head of Finance reassessed the methodology for making the business rates provision?
- Has your Head of Finance got arrangements in place for the estimation of appeals to be charged against the provision?

Earlier closure and audit of accounts

Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 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.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.



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