



Audit Committee Update for Shropshire Council

Year ended 31 March 2014

November 2013

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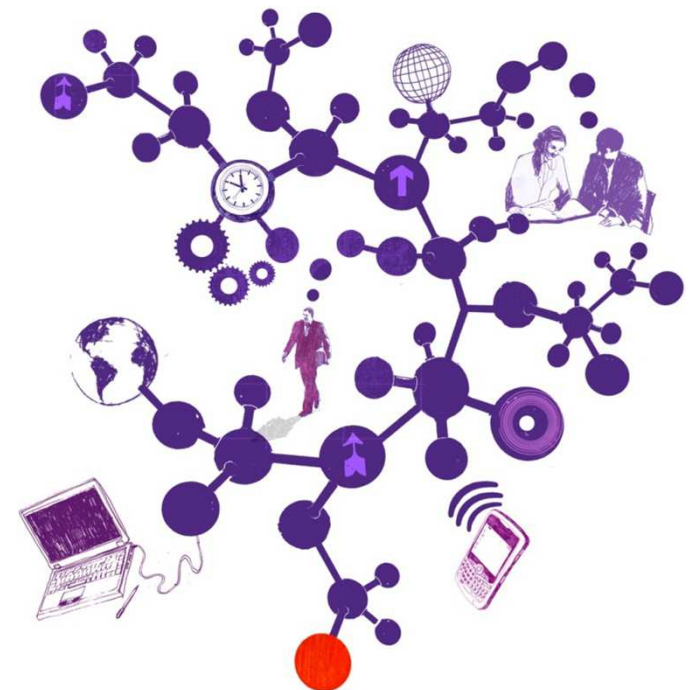
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Introduction

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 as a unitary 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, 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.

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Progress to date

Work	Planned date	Complete?	Comments
<p>2013-14 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 Council's 2013-14 financial statements and provide a value for money conclusion.</p>	February 2014	No	We hold regular meetings with the Chief Executive and Head of Finance, Governance and Assurance. From these and using results from our interim work where appropriate we will prepare our audit plan for 2013-14 for the next Audit Committee.
<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 your 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. 	December 2013 – March 2014	No	<p>We have liaised with Internal Audit on their work for 2013-14. We will meet in the New Year to discuss the scope of their 2013-14 audit work and use their work to support our overall audit approach.</p> <p>We will meet with the Head of Financial Management & Reporting & Deputy S151 Officer in January 2014 to discuss and review the final accounts process in 2012-13 to identify improvements which will support the 2013-14 experience.</p> <p>We have meetings in place to update our cumulative audit knowledge and understanding.</p>
<p>2013-14 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June – September 2014	No	Not yet started.

Progress to date

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013/14 VfM conclusion requires conclusions on whether:</p> <ul style="list-style-type: none"> • The organisation has proper arrangements in place for securing financial resilience. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. 	January – July 2014	No	<p>There are no changes to the key criteria from last year. We will take into account updated guidance from the Audit Commission where appropriate. The areas of audit focus we anticipate at this time for 2013/14 will include reviewing the Council's progress in delivering:</p> <ul style="list-style-type: none"> • the required savings of £24m to support in year financial balance for 2013/14, and • its new Business Plan and Financial Strategy for achieving recurring financial balance and setting out the Council's plans for the next 3-5 years.
<p>Grant work</p> <p>We currently anticipate being required to certify the following grant claims related to the 2013-14 financial year:</p> <ul style="list-style-type: none"> • Pooling of Housing Capital Receipts • Teachers' Pensions, and • Housing and Council Tax Benefit Subsidy. <p>Following the changes to the business rates regime there is currently uncertainty as to whether we will be required to certify a National Non Domestic Rates (NNDR 3) return or its equivalent. Once we have clarity we will inform the Council.</p>	July – November 2014	No	<p>Work on 2013-14 claims and returns has not yet started. We anticipate meeting the certification deadlines on all 2012-13 claims and returns. Details of audit work and any key findings will be provided in our certification report which we expect to issue in December 2013.</p>
<p>Other areas of work</p> <p>Nothing to report at this time.</p>		N/A	

Emerging issues and developments

Local Government guidance

Income from charging

In September, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Challenge questions:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council's financial objectives and complying with legal requirements?
- Has your Head of Finance, Governance and Assurance reviewed the council's charging policy and levels of income against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local Government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published '[Business rates: using data from the VFM profiles October 2013](#)'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Challenge questions:

- Has your Head of Finance, Governance and Assurance reviewed the costs and performance of your authority against similar organisations?
- What steps could your authority take to increase the amount it collects from business rates?
- Is an action plan in place?
- Are you satisfied that your authority has made a robust estimate for its provision for business rate appeals?

Emerging issues and developments

Local Government guidance

Voluntary Code of Practice on the Housing Revenue Account

In October, CIPFA and the Chartered Institute of Housing (CIH) issued the ['Voluntary Code for a Self-financed Housing Revenue Account'](#).

The voluntary code aims to give authorities the tools necessary to control and evaluate the performance of their HRA and increase the value it returns to both councils and rate payers. It will also help authorities to assess and develop effective governance and financial management frameworks for their HRA.

This code is designed to be self-regulatory and compliance is not formally required.

Challenge questions:

- Has your authority reviewed the HRA in light of this new guidance?
- Has your Head of Finance, Governance and Assurance considered whether there are opportunities to improve the governance, financial and management arrangements in place to manage the HRA?
- For opportunities identified, is there an action plan in place?

Emerging issues and developments

Local Government guidance

Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The [Integration Transformation Fund statement](#), signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two year plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Challenge question:

- How is your authority planning to work with its partners to formulate joint plans and obtain funding?

Emerging issues and developments

Governance issues

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Challenge questions:

- Does your authority have a properly functioning procurement process, where duties are clearly segregated?
- Does your authority maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Governance issues

Local Government Pensions Governance Review

This report presents the findings of our first review of [Local Government pension schemes' governance](#). Based on comprehensive research with pension fund senior officers and supported by insights from pension fund auditors, our report shows that there is a wide variety of practice across the UK:

- 70% of funds operate with a single pension committee, but those that use sub-groups are able to act more quickly, with a greater focus on the strategic management of the fund, while ensuring the important aspects of operation are given proper consideration
- only 25% of funds provide their pension committee with regular (more than once a year) reports on key risks affecting the fund
- only 22% of funds are implementing action plans resulting from the CIPFAs knowledge and skills framework
- 60% of pension funds benchmark their costs and have reduced them in recent years, but reporting to pension committees on administration costs and savings is under-developed
- there are lessons to be learnt from funds that have worked collaboratively to reduce costs, share expertise and improve services.

The report also provides an outline of governance and reporting best practice and an update on the significant changes to Local Government pension schemes.

Challenge questions:

- Have you reviewed the report and used the questions posed in the report to help assess the strength of your current governance arrangements?
- What action do you plan to take to improve governance arrangements?

If you have any queries on governance, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

Challenge questions:

- How are you planning to improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of your authority?
- Has your Head of Finance, Governance and Assurance carried out a de-cluttering exercise to ensure that disclosures are relevant, material and up to date?

Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Challenge question:

- Has your Head of Finance, Governance and Assurance reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact?



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