

Audit Committee Update for Shropshire Council

Year ended 31 March 2014

June 2014

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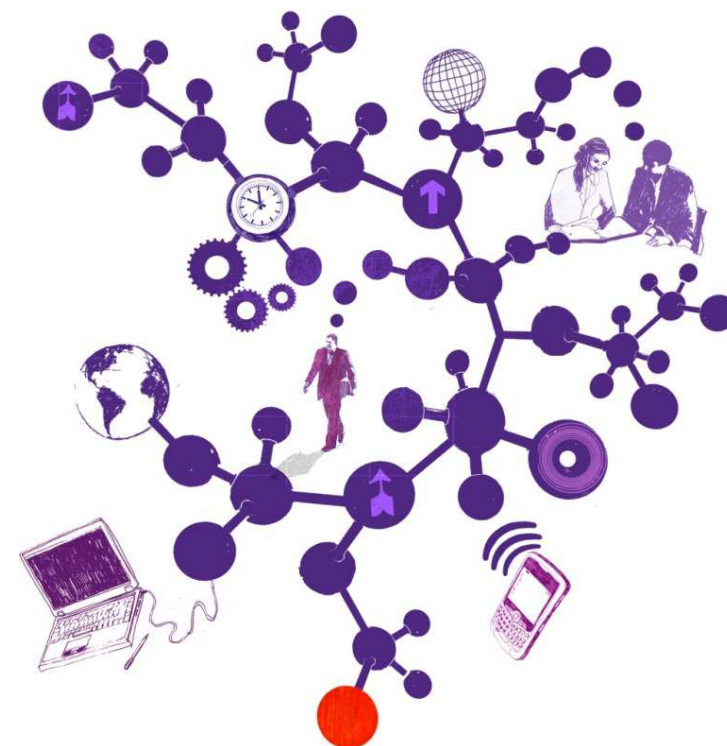
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Introduction

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	Yes	The Audit Plan was presented to the March 2014 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	In progress	<p>We have liaised with Internal Audit on their work for 2013/14.</p> <p>We have undertaken our initial on-site work at the Council which has informed the work plan for our follow up on-site work and our final accounts visit. Learning from the 2012/13 audit has been incorporated into our approach as agreed with the Finance Department.</p> <p>We have held meetings with key Directors to update our cumulative audit knowledge and understanding. This supports both the financial opinion and VFM conclusion.</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	<p>Due to start on the 30th June with initial planning being undertaken once we have received the draft financial statements.</p> <p>We will report to the September Audit Committee and keep the Chair of Audit Committee informed if there are any issues which require notification in advance of this meeting. We are not anticipating any issues of this nature.</p>

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. 	<p>January – July 2014</p>	<p>In progress</p>	<p>There are no changes to the key criteria from last year. Work has been undertaken to collate our initial risk assessment and then identify further evidence to support those risks.</p> <p>We have held meetings with key Directors to update our cumulative audit knowledge and understanding. This supports both the financial opinion and VfM conclusion.</p> <p>The areas of audit focus for 2013/14 include reviewing the Council's progress in delivering:</p> <ul style="list-style-type: none"> • the required recurrent savings of £24m to support in year financial balance for 2013/14 and beyond, and • its new Business Plan and Financial Strategy for achieving recurring financial balance, delivering the £80m funding gap identified and setting out the Council's plans for the next 3-5 years.
<p>Grant work (Audit Commission regime)</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>	<p>July – November 2014</p>	<p>No</p>	<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>The Council has been involved in attending training at our Colmore Plaza offices in Birmingham in relation to completing the workbooks for the Housing Benefit and subsidy certification claim. This should support the process and ensure that we are able to work efficiently in delivering assurance to DWP.</p>

Progress to date

Work	Planned date	Complete?	Comments
<p>Grant work (non Audit Commission regime)</p> <p>The Council required additional assurance in relation to the HCA Decent Homes Backlog Funding for 2012/13. This was brought to our attention after the deadline of September 2013.</p>	<p>Not in original plan, but required in April 2014</p>	<p>Yes</p>	<p>We worked with the Council to provide the required assurance as soon as it was brought to our attention. Our report was addressed to the Council who passed on this assurance to the grant making body (HCA).</p> <p>This work is outside the Audit Commission regime and as such required a separate engagement letter and an additional fee which has been agreed with the Council at £2,750 + VAT.</p> <p>Further assurance is required for the 2013/14 funding which we plan to deliver by the deadline of September 2014. This will require a further engagement letter and additional fee to be raised.</p>
<p>Other areas of work</p> <ul style="list-style-type: none"> • Non-audit services • 2013/14 Pension Fund audit 		<p>Yes</p> <p>No</p>	<p>Our valuations department has completed work for the Head of Finance, Governance and Assurance</p> <p>We have held a planning meeting with the Pensions Team and completed the interim work. The Audit Plan to be taken to the June 2014 Pension Committee is included on this Audit Committee's agenda for note. The final accounts audit is planned for the summer with primary reporting through the Pensions Committee.</p>

Grant Thornton events

Grant Thornton events

Events

We are involved in organising and supporting various events for our local government clients including the following.

Local Events

- **We are hosting a Local Government Audit Committee Network at our Birmingham office on 2 July 2014. The theme for this inaugural meeting will be Financial Reporting in Local Government – providing challenges to the draft financial statements including an update on current topics. All Audit Committee members from Shropshire Council are welcome.**
- We are also hosting an Alternative Delivery Models seminar at our Birmingham office in 16 July 2014 where practitioners will share experiences of setting up and operating various alternative delivery models.

National Events

- Following on from our recent national report on welfare reform Reaping the Benefits we are continuing to gather information and examples of good practice from local government and housing around the country. We are presenting our key findings updated information on good practice to CIPFA Benefits and Revenues Network and regional CIPFA events.
- For the third year running we are sponsoring the conference drinks reception at CIPFA's Annual Conference, taking place in London on 2 July 2014.
- Paul Grady, Grant Thornton's Head of Police, will be speaking at the third Annual National Conference on Police and Crime Commissioners on 10 July 2014, in Nottingham.
- We sponsored the Centre for Public Scrutiny (CFPS) annual Scrutiny Camp Unconference in London on 11 June 2014 and The Municipal Journal's annual Growth Agenda conference on 4 June 2014 where we will be launching our Where Growth Happens report.

Consultation – Local Government Pension Scheme future structure

Sector issues

Local Government Pension Scheme (LGPS) reform

The DCLG (1 May 2014) published a summary of its 2013 call for evidence on the future structure of the local government pension scheme, along with its own conclusions and has launched a formal consultation on these. Consultation responses are required by 11 July 2014. <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

Having considered a cost/benefit analysis of mergers from actuarial firm Hymans Robertson, the DCLG said it would not force funds to merge, but is instead consulting on the following proposals:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

The potential proposed changes, whilst not as radical as the previously considered merger proposals, remain nonetheless significant for the management of pension funds. DCLG believe the implementation of the proposed changes would significantly reduce investment costs across the LGPS nationally.

Challenge question

Has your Head of Finance, Governance and Assurance briefed members on the potential implications of the government's proposed LGPS reform for the future management of the locally administered LGPS and is the fund preparing a consultation response?

Assessing the costs and benefits of local partnerships

Governance issues

The government published its cost benefit analysis guidance for local partnerships on 2 April 2014.

Developed as part of the Greater Manchester 'whole place' Community Budget pilot, it was the first Treasury-approved assessment of the costs and benefits of joining-up and reforming public services in local areas.

The framework was developed by New Economy, the economic strategy unit of the Greater Manchester Combined Authority. John Holden, acting director of economic strategy at the agency, led the team that devised the methodology. He said

"this model provides a framework to start thinking about more holistic projects that deliver long-term outcomes but also produce short-term cashability [savings]"

The guidance sets out a standard process to determine the benefit of reforms, based on the unit cost of services, their impact and the savings that result. In providing Treasury backing for the cost benefit analysis framework – it has been included in Whitehall's Green Book for policy appraisal and evaluation – it has been added to the government's assessment process for the latest £320m round of the Transformation Challenge Award, which provides funding to councils to implement reforms.

Challenge question

Has the authority considered the applicability of the government's cost benefit analysis guidance in considering the cost-benefits of local service delivery options?

Working in tandem – Local Government Governance Review 2014

Governance issues

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Challenge questions

Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Has the Authority reviewed these case studies and assessed whether it is meeting good practice in these areas?

Our report includes key questions for members to ask officers on risk management and alternative delivery models. Are these issues being considered and responded to by officers?

Understanding your accounts – member guidance

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

Supporting this guide we have produced two further documents to support members in discharging their responsibilities

- helping local authorities prepare clear and concise financial statements
- approving the minimum revenue provision

Copies of these are available from your Engagement Lead and Audit Manager

Challenge question

Have members referred to this guidance?

Accounts – our top issues

Accounting and audit issues

Top 10 issues for the 2013/14 closedown

Based on the queries we have received from practitioners and auditors, here is a list of the top [10] issues to consider for the 2013/14 closedown.

1. Do your accounts tell the overall story of your authority's financial performance and financial position? Are they clear, concise and easy to follow? Is detailed information on the most important information easy to find? Have duplicated text, non-material notes and zero entries been removed?
2. Are your accounts internally consistent? In particular, does the movement in reserves statement agree to the detailed notes?
3. Is your programme of revaluations sufficiently up to date to ensure that the carrying value of property, plant and equipment does not differ materially from the fair value at 31 March 2014?
4. Have you accounted for provisions in accordance with IAS 37?
 - Have you considered provisions for business rates, equal pay and restoration and aftercare of landfill sites?
 - Are your provisions the best estimate of the liability (rather than a prudent estimate or an amount that is convenient for budget purposes)?
 - Is there a robust evidence based methodology to support the estimate?
 - Are there any instances in which a provision has not been made because a reliable estimate cannot be made? If so, Is their robust evidence to support the judgement that a reliable estimate is not possible? Has a contingent liability been disclosed?
5. Is your PFI accounting model up to date? Do your accounts disclose:
 - the fair value of PFI liabilities?
 - information on the impact of inflation on PFI commitments?
6. Have you addressed the new accounting requirements in 2013/14 for the presentation of IAS 19 pension costs and a new service line for Public Health been addressed? Have comparatives been restated?
7. Have you disclosed the accounting policy for schools? For those schools that are not recognised on the balance sheet, has information about school assets, income and expenditure been disclosed?

Accounts – our top issues

Accounting and audit issues

8. In the pension accounts, have the following disclosures required by the Code been included that are in addition to those set out in the CIPFA example pension fund accounts:

- the relationship between net assets available for benefits and the present value of promised retirement benefits
- an accounting policy for measurement of assets held at amortised cost.

9. In the group accounts, are the accounts of subsidiaries, associates and joint ventures robust? Have accounting policies been brought in line with those of the authority? Have all intra-group transactions and balances been eliminated?

10. Have you agreed a detailed closedown plan with your auditors? Does this include:

- how to deal with known major issues?
- a protocol for dealing with new issues as they arise?
- a date for a post-implementation review?

Challenge question

Has your Head of Finance, Governance and Assurance addressed the closedown issues and assessed the potential impact for your financial statements?

Accounts – CIPFA bulletin

Accounting and audit issues

LAAP Bulletin 98: Closure of the 2013/14 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 98](#). The bulletin provides further guidance and clarification to complement CIPFA's 2013/14 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- public health reform
- non-domestic rates – provision for appeals against the rateable value of business properties
- component accounting
- accounting for pension interest costs in relation to current service cost and pension administration costs
- disclosure requirements for dedicated schools grant.

With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15 and on the measurement of transport infrastructure assets in 2016/17.

Challenge question

Has your Head of Finance, Governance and Assurance reviewed the guidance and assessed the potential impact for your financial statements?



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