

# Audit Committee Update for Shropshire Council

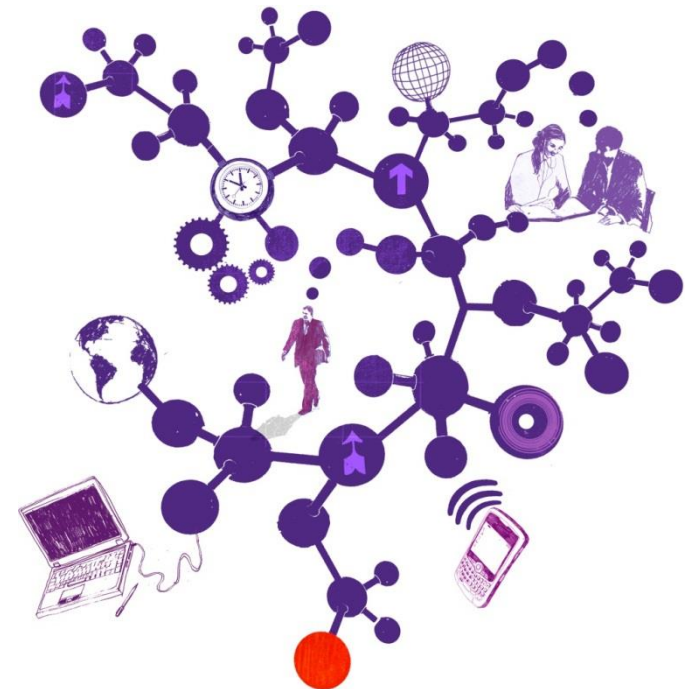
**Year ended 31 March 2015**

June 2015

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# Contents

<b>Section</b>	<b>Page</b>
Introduction	3
Progress to date	4
Emerging issues and developments	
Grant Thornton	7
Local government issues	9
Accounting and audit issues	12

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 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](http://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
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- 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
- 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.

# Progress to date

Work	Planned date	Complete?	Comments
<p><b>2013/14 Objection</b></p> <p>We received a formal objection to an element of expenditure within the 2013/14 financial statements relating to taxi licence fees. This did not impact on our ability to provide our opinion on the financial statements.</p>	November 2014 – March 2015	Yes	<p>We have provided a statement of reasons to the objector within the timescales set out by the Audit Commission. We are now in a position to formally close the audit and issues the certificate for 2013/14. This will happen in the coming weeks. We will also prepare the fee as a result of dealing with this objection.</p>
<p><b>2014/15 Accounts Audit Plan</b></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 Council's 2014/15 financial statements.</p>	February 2015	Yes	<p>We continue to assess the risks facing your Council and meet with Senior Officers to ensure that these risks are fully understood and our proposed audit work is appropriate to support our final opinion and VfM conclusion.</p> <p>If there are any revisions to the plan we will agree this with the Head of Finance, Governance and Assurance and report back to Audit Committee.</p>
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	November 2014 – April 2015	Yes	<p>We have undertaken regular meetings with the finance team to streamline and improve the audit approach for 2014/15 and discuss technical issues early. This covered a range of topics covering particular technical areas for Shropshire and national issues arising in 2014/15.</p> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p> <p>Our approach for 2014/15 has been to undertake as much early testing as possible to reduce pressure on the finance and audit team over the summer months.</p>

## Progress to date (continued)

Work	Planned date	Complete?	Comments
<p><b>2014/15 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014/15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June – September 2015	Not started	The onsite work is due to commence from 20 <sup>th</sup> July 2015 once we have received the draft set of financial statements.
<p><b>Value for Money (VfM) conclusion</b></p> <p>For 2014/15, auditors of Local Government bodies are required to give their statutory conclusion on arrangements to secure value for money based on the following two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> <li>• The organisation has proper arrangements in place for securing financial resilience.</li> <li>• The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul>	December 2014 – July 2015	In progress	<p>The scope of our work to inform the 2014/15 VfM conclusion is detailed within the Audit Plan.</p> <p>We have already started attending meetings with key Senior Officers to inform our overall understanding of the Council and capture evidence of how the Council is securing value for money in all areas of service delivery.</p> <p>There will also be a strong focus on financial resilience and how the Council is preparing itself for future years.</p>
<p><b>Grant work (PSAA regime)</b></p> <p>We plan to certify the following claim:</p> <ul style="list-style-type: none"> <li>• Housing Benefits Claim 2014/15 (BEN01)</li> </ul>	June – November 2015	Not started	<p>We do not propose to prepare a Certification Plan on the basis that there is only one claim now under the PSAA regime and the fee is communicated via the annual fee letter.</p> <p>We will update you on any grant work undertaken outside of the PSAA regime and report all grant related fees within the Audit Findings Report in September.</p>

## Progress to date (continued)

Work	Comments
<b>Other areas of work</b> The Council has not engaged us to complete any additional work at this time.	N/A
<b>Engagement with the Council since the last Committee meeting</b>	<ul style="list-style-type: none"><li>• Discussions with the finance team to confirm arrangements for final accounts and other financial reporting issues.</li><li>• Meeting with the Head of Finance, Governance and Assurance to update on audit and client facing matters.</li><li>• Distribution to Senior Leaders and Members of "Spreading their wings: Building a successful local authority trading company" within which ip&amp;e Ltd is a case study.</li><li>• Agreement with the Council and ip&amp;e Ltd to use ip&amp;e Ltd to inform an article within Public Finance to promote our report.</li><li>• Distribution to Senior Leaders and Members of "Easing the burden, our report on the impact of welfare reform on local government and social housing organisations"</li><li>• Dialogue with officers involved in the Better Care Fund to ensure that initial VAT advice is provided to support discussions between the Council and the CCG.</li><li>• Invitation for the Chief Executive to attend our Birmingham offices and benefit from the CEO Room.</li></ul>

# Spreading their wings: Building a successful local authority trading company

## Grant Thornton

Our report, 'spreading their wings' focuses on how to set up a local authority trading company and, importantly, how to make it successful. It is available at <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

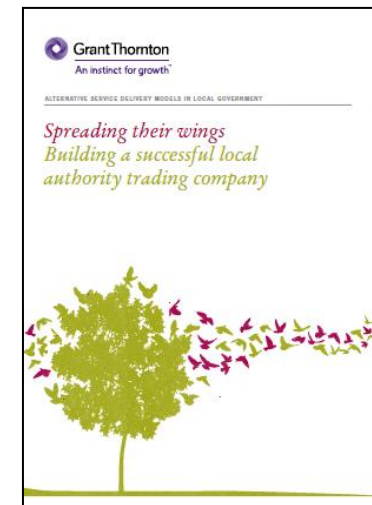
The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs, and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with.

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



# Welfare Reform Review: Easing the burden

## Grant Thornton

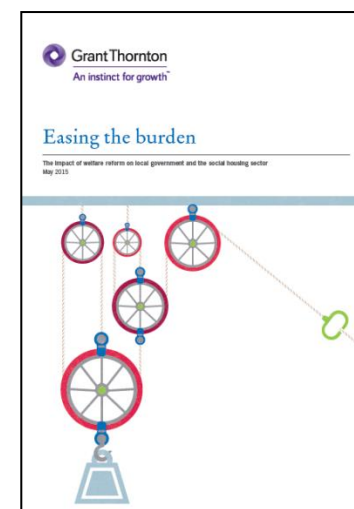
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

It focuses on the governance and management arrangements being put in place across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

The key messages include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed have seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There has been limited movement to smaller properties as a result of the spare room subsidy and benefit cap reforms,
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.
- Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP, hardship funding and general funding reductions inhibit the ability of local authorities and housing associations to pursue early intervention policies, preventing people falling into long-term benefit dependency. This has cost implications for the medium- to long-term.
- The cost of administering housing benefit is rising as a result of welfare reform. Around half of local authorities and housing associations surveyed said housing benefit is becoming significantly more costly to administer, partly due to the increased complexity of cases.

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





# The Queen's Speech 2015 – what it means for local government

## Local government issues

The Queen's Speech was presented to Parliament on 27<sup>th</sup> May 2015 and set out the new government's policies and proposed legislative programme for the next parliamentary session. There are a range of proposals impacting on local government, including:

- A Cities and Local Government Devolution Bill aimed at boosting growth and increasing local government productivity and efficiency. It will provide the legislative framework to deliver the Greater Manchester deal and other future deals. The provisions of the bill will be applied to specified combined authorities and their areas, led by an elected mayor.
- A Housing bill extending right to buy legislation to housing associations and requiring local authorities to dispose of high-value vacant council houses. This bill will also introduce measures to simplify and speed up the neighbourhood planning system other changes to housing and planning legislation to support housing growth.
- An Education and Adoption bill that aims to speed up intervention in failing schools and requires inadequate, and coasting schools to become academies. It is also planned to introduce regional adoption agencies, working across local authority boundaries to reduce delays in the adoption system.

## Challenge question

Have members:

- been briefed by the Head of Finance, Governance and Assurance on the new government's proposed legislative programme and its likely impact on the Council?

# Local Government New Burdens

## Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5<sup>th</sup> June 2015.

In 2011, the government reaffirmed its commitment to the New Burdens Doctrine (the Doctrine). The Doctrine set out how the government would ensure that new requirements that increased local authorities' spending or reduced their income did not lead to excessive council tax increases. The Doctrine commits the government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.

The NAO report considers the new burdens regime, how it is managed and overseen and the DCLG's arrangements for new burdens assessments. It concludes that:

- government departments have embraced the new burdens Doctrine and the DCLG's guidance has promoted consistent assessment and encouraged consultation with local government on the impact of new requirements;
- however, the government is not sufficiently open about which new burdens are assessed or the outcomes of assessments; and
- the DCLG has not promoted post implementation reviews to ensure funding is adequate.

The NAO also concludes that the DCLG needs to use intelligence from new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

## Challenge question

Have members been briefed by the Head of Finance, Governance and Assurance on the key findings of the NAO's review of new burdens on local government?

# English devolution – local solutions for a successful nation

## Local government issues

The Local Government Association's (LGA) white paper on devolution includes a warning to the new government that the principle of cuts without reform could stifle growth and development and challenge the sustainability of vital local services. The paper sets out:

- Why devolution matters
- The principles to sustain devolution
- A road map to follow to help deliver reform
- Proposals that will strengthen accountability and governance in the new system

It states that:

*Local government has done more than any other part of the public sector over the course of the last parliament to make the public finances more sustainable and managed to do so while protecting front line services. All evidence suggests that this cannot continue over the next five years without more radical reform. Given the continuing need to reduce the national deficit, only a reinvigorated agenda for reform, underpinned by sustainable funding for local services, will deliver the ambition of the new Government for our communities and national economy.*

### Challenge question

Have members been briefed by your Chief Executive or Head of Finance, Governance and Assurance on the headline messages from the LGA's white paper on devolution?

# Understanding your accounts – Member guidance

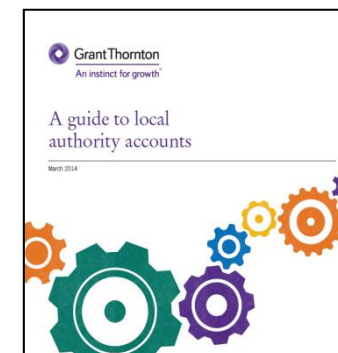
## Accounting and audit issues

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.

In 2014 we 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. Any new members to the Audit Committee may find this guide helpful.

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 a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; and
- other statements and additional disclosures



We have copies of the Guide to Local Authority accounts for distribution to the Audit Committee.

# 2014/15 Accounts hot issues

## Accounting and audit issues

As part of our audit of local authorities 2014/15 accounts we will be considering the following issues

**Accounting for schools** – in particular the judgements made on whether to include non current assets for voluntary aided and voluntary controlled schools on the Council's balance sheet

**Provisions for business rates appeals** – as a result of a change in rules relating to business rates appeals we do not expect to see provisions for unlodged appeals in 2014/15 accounts

**Early payment of pension contributions** – we expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund and the accounting judgements and treatment in the 2014/15 accounts should reflect the advice received

**Inclusion of overtime in the calculation of holiday pay** – authorities that are likely to be affected in a material way by the Employment Appeal Tribunal judgement on the extent to which overtime pay should be included in the calculation of holiday pay should include an appropriate provision in their 2014/15 accounts

### Challenge question

Has your review of the Council's 2014/15 accounts included consideration of these hot issues?

# Earlier closure and audit of accounts

## Accounting and audit issues

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.

## Challenge questions

- Has your Head of Finance, Governance and Assurance put in place a plan to address the earlier close date?



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