

# Audit Committee Update for Shropshire Council

## Progress Report and Update Year ended 31 March 2016

September 2016

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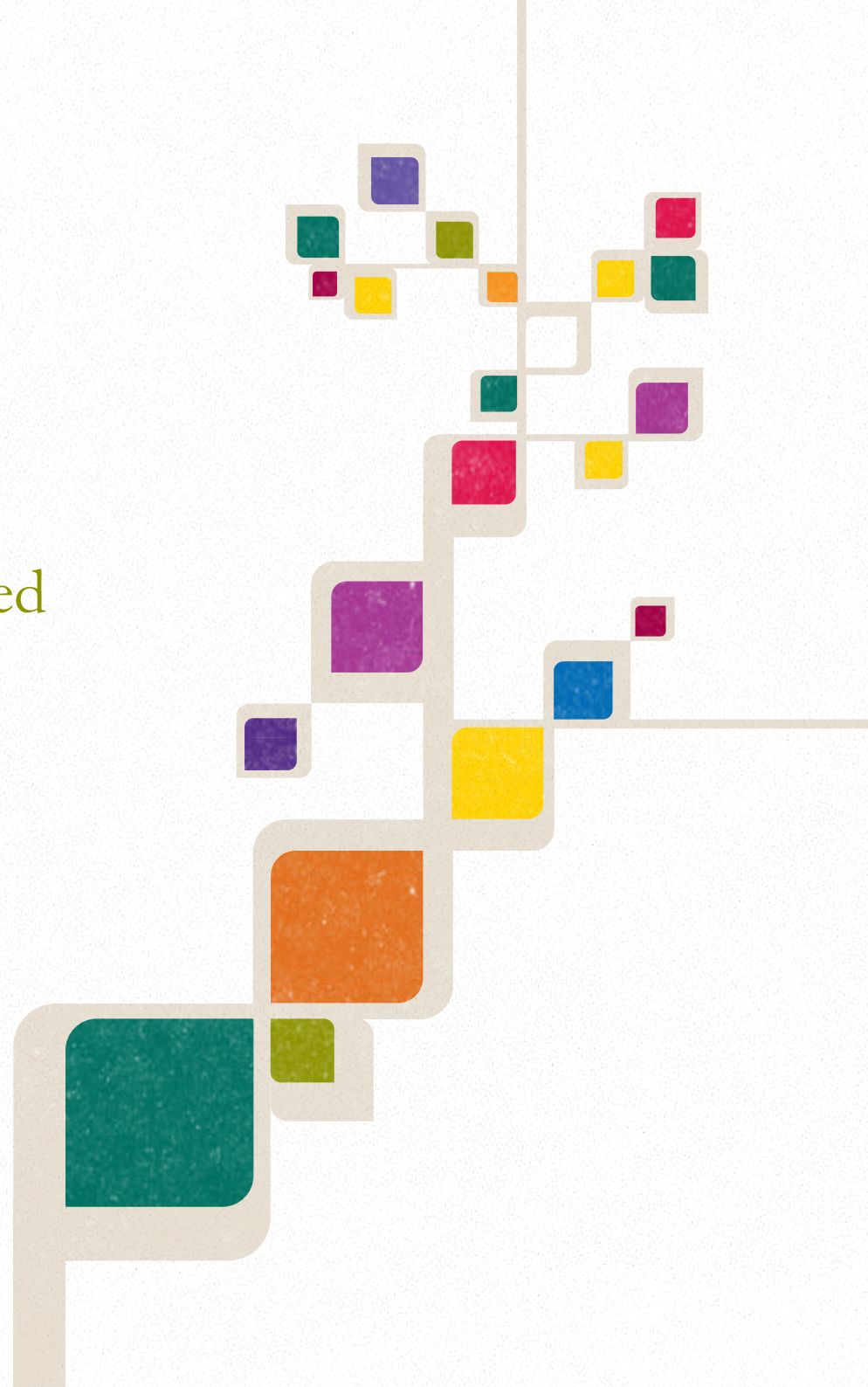
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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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. Here you can download copies of our publications:

- Better Together: Building a successful joint venture company; <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

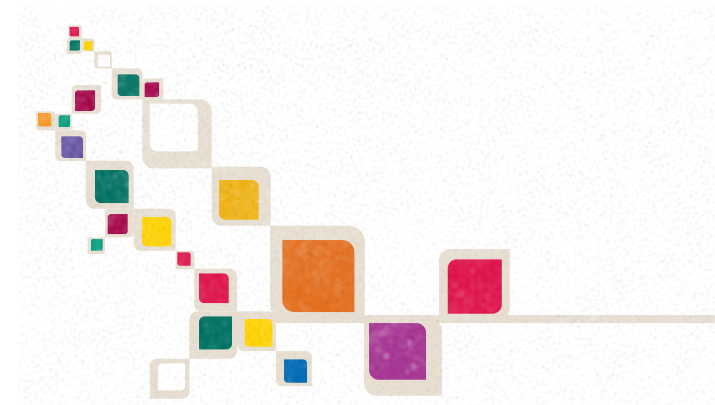
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

## **Members and officers may also be interested in our recent webinars:**

**Alternative delivery models:** Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

**Cyber security in the public sector:** Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

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.



# Progress to date



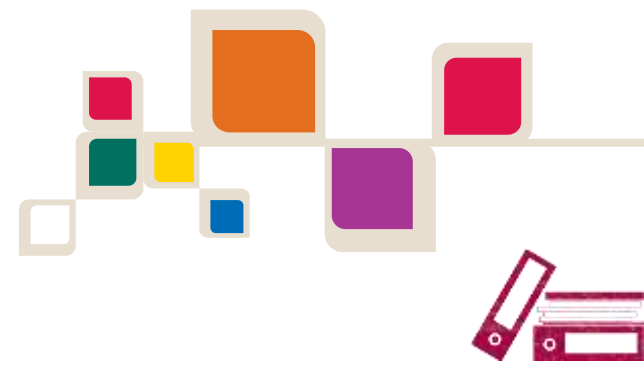
## Progress against plan

On track



## Opinion and VfM conclusion

Plan to give before deadline of 30 September 2016

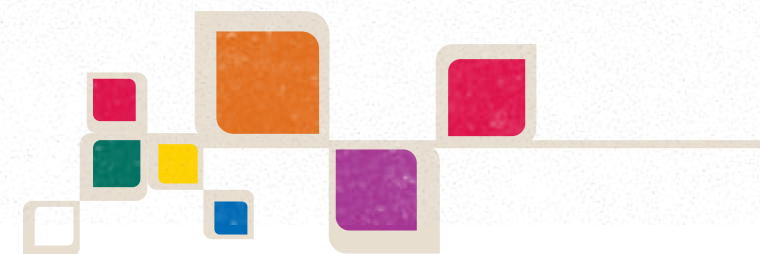


## Outputs delivered

Fee letter, Progress Reports, and interim audit delivered to plan

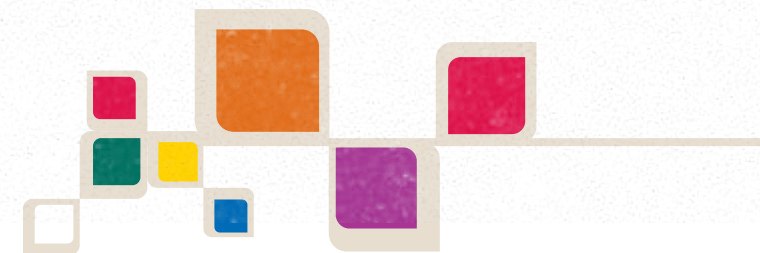
2015/16 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter' for 2015/16 to the Council by the end of April 2015.</p>	April 2015	Yes	The 2015/16 fee letter was issued in April 2015
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan covering the audit for the Council setting out our proposed approach in order to give an opinion on the financial statements, including the group consolidations in 2015/16.</p>	March 2016	Yes	<p>We continue to assess the risks facing you and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.</p> <p>If there are any changes to our plan between our initial risk assessment and the delivery of our opinion we will discuss this with the appropriate Senior Officers and agree with the Head of Finance, Governance and Assurance.</p>
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visits covers work on the Council's arrangements, including:</p> <ul style="list-style-type: none"> <li>• updating our review of the control environments</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 work.</li> </ul>	January – April 2016	Yes	<p>We have:</p> <ul style="list-style-type: none"> <li>• engaged with the finance team to streamline and improve the audit approach for 2015/16 where possible</li> <li>• Discussed technical issues early, including the accounting for Highways Network Assets</li> <li>• Undertaken as much early testing as possible.</li> </ul> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>

# Progress to date



2015/16 work	Planned Date	Complete?	Comments
<b>Final accounts audit</b>			
Covering the Council's group financial statements, we will: <ul style="list-style-type: none"> <li>audit the 2015/16 financial statements</li> <li>proposed opinion on the 2015/16 financial statements</li> </ul>	June – September 2016	Yes	We have undertaken work on your draft financial statements to provide an opinion by the statutory deadline. On site work was substantially complete by 31 <sup>st</sup> August in line with our plan, as part of the transition to the earlier closedown and audit cycle from 2017. We will continue to work with the Finance team on how to move this further forward in future years.
<b>Value for Money (VfM) conclusion</b>			
The scope of our work to inform the 2015/16 VfM Conclusion requires conclusions on whether: <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>Informed decision making</li> <li>Sustainable resource deployment</li> <li>Working with partners and other third parties</li> </ul>	February – August 2016	Yes	We have considered the potential significant risks for our VfM conclusion and identified the following issues as reported to the June Audit Committee. <ul style="list-style-type: none"> <li>Medium term financial resilience / strategic development</li> <li>Governance</li> <li>Service delivery</li> <li>Adult Social Care</li> </ul> Our work on the VfM Conclusion has included attending meetings with key Senior Officers and document reviews. Our judgements and conclusions were completed ahead of the national timescales as a move towards the faster close from 2017. <p>As part of this work we have also followed up progress against last year's issues.</p>
<b>Annual Audit Letter</b>			
We will summarise all the work completed as part of our 2015/16 audit within one letter which will be issued after the opinion.	October 2016	Not started	

# Progress to date



2015/16 work	Planned Date	Complete?	Comments
<b>Grant work (PSAA regime)</b>			
We plan to certify the Housing Benefits Subsidy Claim 2015/16 (BEN01)	February – November 2016	In progress	<p>We have not prepared 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>Work is progressing and we are on schedule to complete this work by the statutory deadline of 30<sup>th</sup> November 2016.</p>
<b>Engagement with you since the last Audit Committee meeting</b>			
	On-going	On-going	<ul style="list-style-type: none"> <li>• Updates with the Head of Internal Audit to ensure we are aware of progress on key issues.</li> <li>• Discussions with staff outside finance to support our work on the opinion.</li> <li>• Discussions between our advisory colleagues and the Chief Executive and Head of Finance, Governance and Assurance on a suite of services we could offer.</li> <li>• Discussions with Senior officers as part of our VFM risk assessment process.</li> <li>• Circulation of our latest collateral to Senior officers.</li> </ul>

# Local Government Sector Accounting and other issues





## Accounting and audit issues

### The Narrative Report

The Accounts and Audit Regulations 2015 require local authorities in England to publish a narrative statement with their published financial statements. Regulation 8 (2) of the regulations requires that the narrative statement "include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year". This replaces the Explanatory Foreword in the accounts from 2015/16.

The 2015/16 Code Update uses the term 'narrative report' which is deemed to have the same meaning as 'narrative statement' and sets out recommendations of what to include. The topics set out are those likely to be significant to the understanding of the financial statements and have not changed from the disclosure requirements set out in the 2014/15 Accounting Code.

The 2015/16 Code Update also addresses the statutory reporting disclosure requirements which have been affected by the new Accounts and Audit Regulations 2015 and says the narrative report should provide an analysis of:

- the development and the performance of the authority in that financial year and its position at the end of the year and
- the financial and non-financial performance indicators as relevant to the performance of the authority.

The detailed guidance is outlined in Chapter 3.1 of the 2015/16 Code Update.

### Challenge questions:

- Have you reviewed your Narrative Report and are you satisfied with the content?



## Accounting and audit issues

### Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the new measurement requirements at depreciated replacement cost for the Highways Network Asset (HNA) and
- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

In respect of HNA, the Accounting Code requires local authorities to comply with the CIPFA Code of Practice on Transport Infrastructure Assets issued in 2013. The Transport Infrastructure Code is currently being revised and will be reissued as the Highways Network Asset Code (HNA Code) over the summer of 2016. Whilst no major changes are expected to the basis of the accounting set out in the previous Code of Practice on Transport Infrastructure Assets, the detailed accounting requirements will not be finalised until the updated HNA Code is formally issued.

The key challenge for local authorities is around the accuracy and completeness of supporting records for HNA inventory and condition at 1 April 2016 and effective arrangements for recording expenditure and other movements on HNA from that date.

#### Challenge questions:

- Is your Head of Finance, Governance and Assurance aware of the changes to the 2016/17 Code and assessed the potential impact?
- What are you and the Head of Finance, Governance and Assurance doing to obtain assurance over the completeness and accuracy of supporting records for HNA?
- Have you a project plan in place to achieve this?





## Accounting and audit issues

### Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate on-going revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

### Challenge questions:

- How is your Head of Finance, Governance and Assurance aligning with other Directors to ensure that the asset strategy supports this new direction?

# Brexit: What happens next and what does it mean for you?

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

We have produced an analysis of what we know about the mechanics of leaving the EU, our assessment of some of the external factors that may affect organisations over the coming months and years, and a summary of the different models for trading relationships outside the EU. This can be found on our website and we have attached copies to this report.

In thinking about the impact organisations will want to consider not only legal and regulatory changes but also market reactions, consumer and business behaviours, and the wider political and economic environment. The Council will have a role in both shaping its own response and in helping organisations in the City respond to a changing environment. We can expect three broad phases of reaction to Brexit:

- initial volatility
- medium term uncertainty and instability
- longer term transition

The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which explores how we can build a vibrant economy. You can find out more here: <http://vibranteconomy.co.uk/>

We would welcome views on what the priorities should be for government and the UK to create a new economy outside the EU.

Emerging issues

How is the Council responding to the outcome of the EU referendum?

# Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

# The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles- based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

<Integrated Reporting>

Further information is available on the IIRC's website

# Grant Thornton Publications



# Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – <http://www.grantthornton.co.uk/industries/public-sector/>



# Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



# Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
  - high quality financial statements as a result of improved quality assurance arrangements;
  - greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
  - improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
  - allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
  - Efficient and effective systems and processes are essential
  - Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



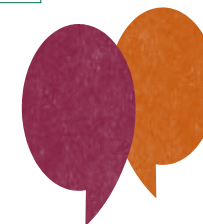
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>



# CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

## Future events and workshops

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### *Joint Venture Seminar on 28<sup>th</sup> October -*

Following publication of our 'Better Together' report we are running a workshop in our Leicester offices. The session will include presentations from the practitioners interviewed in preparing our report.

The event will provide an invaluable insight into setting up and running joint venture companies

For further information or to book your place, please contact your Audit Manager or Penny Bassnett T +44 (0)121 232 5356

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### Grant Thornton events





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