

# Audit Committee Update

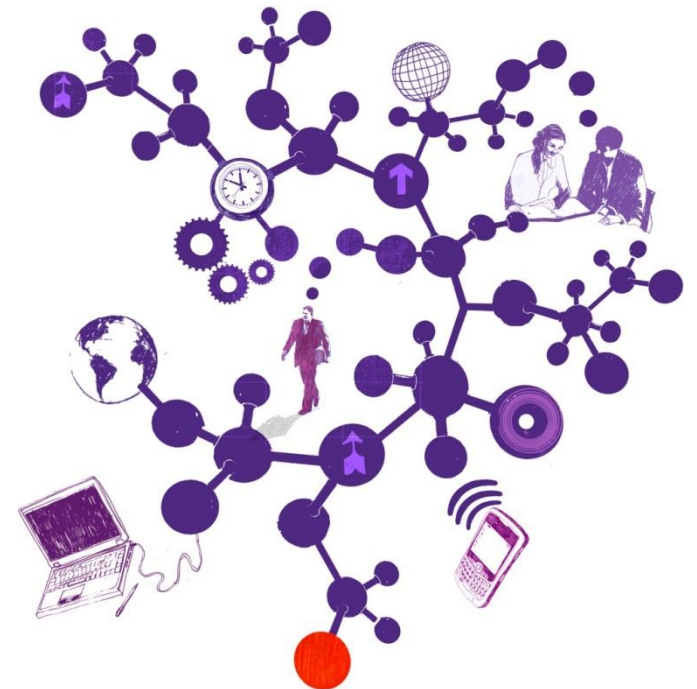
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**Year ended 31 March 2016**

March 2016

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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 as a Council.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector at [www.grant-thornton.co.uk/en/Services/Public-Sector/](http://www.grant-thornton.co.uk/en/Services/Public-Sector/) and where you can also download copies of our publications.

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.

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# Planned work for 2015/16

	Planned date
<p><b>Interim Accounts audit</b> Our interim work will include:</p> <ul style="list-style-type: none"> <li>• work to understand how the Council's functions are delivered, the control environment and the framework of controls for financial systems</li> <li>• walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement</li> <li>• early substantive testing</li> <li>• early work on any emerging accounting issues.</li> </ul>	January – March 2016
<p><b>Accounts Audit Plan</b> Under auditing standards we are required to issue a detailed accounts audit plan setting out our proposed approach to the audit of the 2015-16 financial statements.</p>	June 2016
<p><b>Accounts audit</b> Work to complete our audit of the 2015-16 financial statements. In 2015/16 Grant Thornton is again running accounts workshops for officers at local authorities involved in preparing the financial statements. The workshops are being attended by officers from the Swale finance team.</p>	July 2016
<p><b>Value for Money (VfM) conclusion</b> Work to reach a conclusion on whether the CCGs have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. The National Audit Office (NAO) has issued revised guidance to auditors on the work required to conclude if audited bodies have proper arrangements in place to secure economy, efficiency and effectiveness in</p>	February – July 2016

# Planned work for 2015/16

	Planned date
<p><b>Value for Money (VfM) conclusion (cont.)</b></p> <p>their use of resources. This guidance applies to the 2015/16 audit of accounts. The guidance is available at <a href="https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors">https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors</a></p> <p>Auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: "<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> <p>The guidance also identifies sub-criteria intended to guide auditors in reaching their overall conclusion:</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> <p>We are required to report by exception if we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p> <p>We will perform an initial risk assessment under the new guidance and report the findings in our 2015/16 Audit Plan.</p>	February – July 2016

# Reforging local government: Summary findings of financial health checks and governance reviews

## Grant Thornton market insight

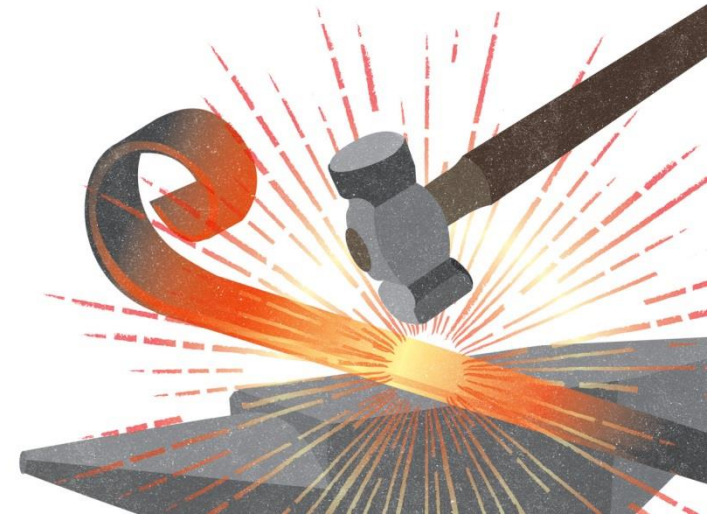
The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

The report can be downloaded from our website: <http://bit.ly/GT-RLG>

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



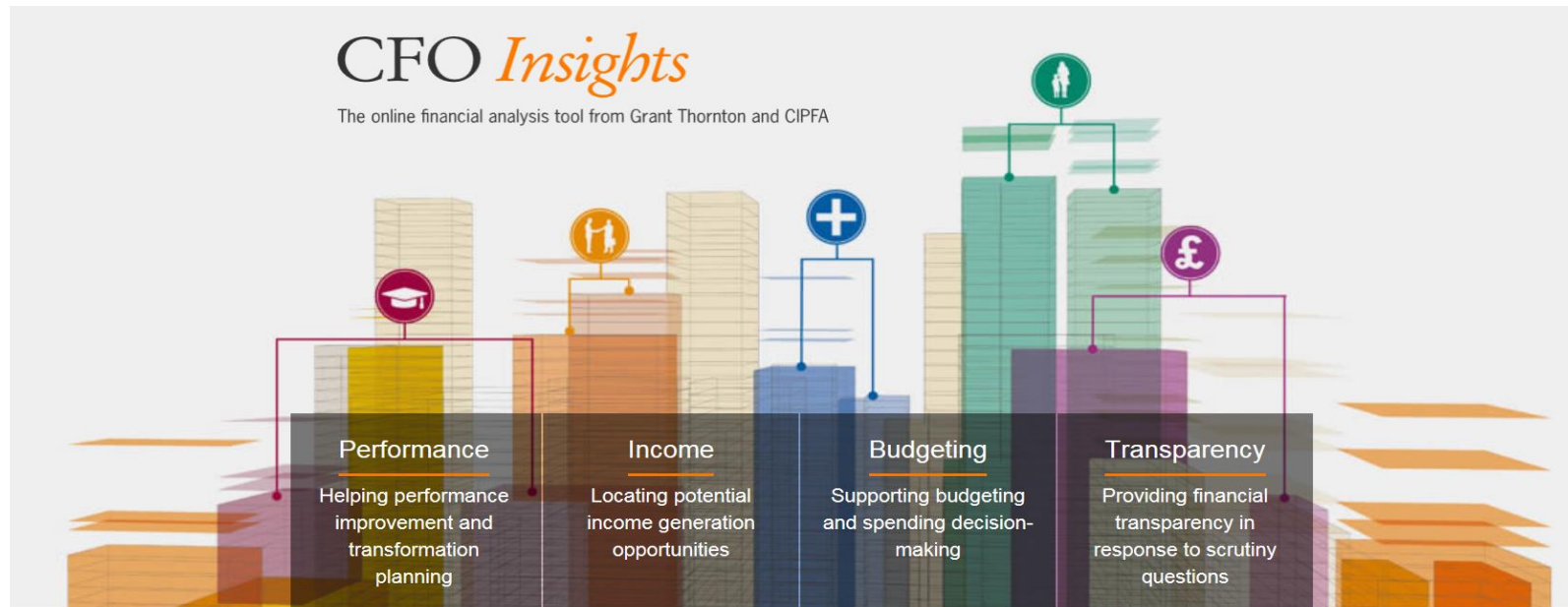
# CFO Insights— driving performance improvement

## Grant Thornton and CIPFA market insight

CFO insights is an online analysis tool that gives those seeking 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 which can help with financial decision making and provide independent data to support conversations with communities, central government and other stakeholders.

If you would like more information on the tool, or to organise a demonstration, please contact your Engagement Lead or Audit Manager.





# Innovation in public financial management

## Grant Thornton market insight

In December 2015 we issued our report '*Innovation in public financial management*' which can be found at <http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

This report draws on a survey of almost 300 practitioners worldwide and includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

**Changing practices.** Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

**The right PPP formula.** 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

**Transparency with technology.** Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets rather than data insights.

**The new normal.** Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.



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# Workshop on early accounts closure and audit

## Grant Thornton

The Accounts and Audit Regulations 2015 require local government bodies to prepare their statement of accounts for the 2017/18 financial year by 31 May 2018, and for those accounts to be audited by 31 July 2018. There is now less than three years to make the transition to this significantly earlier timetable.

Grant Thornton is currently holding workshops for practitioners to provide an opportunity for;

- hearing from other practitioners who have already achieved early closure of public sector accounts, what challenges they faced and what has worked in practice
- hearing an audit perspective on earlier closure
- exploring the challenges and benefits of earlier closure and
- discussing what preparations can be made now and in the run up to 2018.

A local event was held in Maidstone on 15 February and attended for Swale by the Chief Accountant.

# Accounts - public rights of inspection and challenge

## Local government issues: National Audit Office

### Council accounts: a guide to your rights

The NAO has published an updated version of *Council accounts: A guide to your rights*. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

### Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15<sup>th</sup> July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

# The Care Act and New Burdens

## Local government issues: Public Accounts Committee Report

Further to the NAO reports on *Care Act first-phase reforms* and *Local government new burdens* both published in June 2015, and the hearing of the Public Accounts Committee (PAC) in October 2015 on the combined topics, the PAC has now published its report on the matter. The PAC report considers the additional cost burdens on, and uncertainty for, local councils. It also considers the government's ability to identify and respond to councils that are struggling.

Its main findings are as follows:

- following the decision to delay the second phase of the Care Act there are concerns that people will have to pay more for their care for longer before the cap on care costs is implemented. However, as the government have announced that they will not claw back the £146m of funding that it provided to councils in 2015/16 to prepare for the second phase, local authorities will not have the financial burden that was anticipated
- the DCLG has failed to adequately identify and assess new burdens on local authorities and consider their impact, creating significant uncertainty for local authorities. Councils are faced with 'unfunded pressures' which are making it 'more difficult for them to meet their statutory duties and will increase pressure on council tax'
- The report calls for the Spending Review and annual finance settlements for local authorities to 'take full account of the many cost pressures local authorities face, whether or not they meet the government's definition of a new burden'. Funding must be monitored to ensure that vulnerable people do not lose out.

The full report can be found at <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/publications/>

# CIPFA reports and publications

## Local government issues

### Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1<sup>st</sup> April 2017 and larger local government bodies a year later, on 1<sup>st</sup> April 2018. In practice this means that smaller local authorities must have appointed their local auditors by 31<sup>st</sup> December 2016 and larger principal authorities by 31<sup>st</sup> December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor

### Better Care Fund

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Healthcare Financial Management Association (HFMA) have issued a joint report examining the progress that has been made six months into the implementation of the government's £5.3bn Better Care Fund (BCF) arrangements. While the report points out that the fund has already begun to produce improved working relationships between NHS bodies and local public services, it highlights that more needs to be done to ensure the success of the BCF. The report is based on the results of a CIPFA and HFMA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites, and is available from the CIPFA website - <http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape>.

# Results of auditors' work 2014/15

## Public Sector Audit Appointments

### Report on the results of auditors' work 2014/15: Local government bodies

Following the closure of the Audit Commission on 31<sup>st</sup> March 2015, Public Sector Audit Appointments (PSAA) became responsible for appointing auditors to local Government bodies and for overseeing the delivery of consistent, high-quality and effective external audit services.

The Audit Commission previously published *Auditing the Accounts* reports for Local Government bodies covering the 2012/13 and 2013/14 financial years. The reports summarised the results of the work of auditors appointed by the Commission at local bodies.

The *Report on the results of auditors' work 2014/15: Local government bodies* is the first such report published by PSAA, and it summarises the results of auditors' work at 509 principal bodies and 9,755 small bodies. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The report concludes that the timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies. It reports that;

- for principal bodies, auditors at 345 of 356 councils (97 per cent) were able to issue the opinion on the accounts by the statutory accounts publication date of 30<sup>th</sup> September 2015.
- 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30<sup>th</sup> September 2015.
- for the second year in a row there have been no qualified opinions issued to date to principal bodies.
- the number of qualified conclusions on value for money arrangements has remained consistent with the previous year at 4 per cent (17 councils, one police body and one fire and rescue authority).

# Website re-launch

## Grant Thornton

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/en/insights/?tag=s=local-gov&q=sustainable+communities>





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