



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

THURSDAY 16TH JULY 2015, AT 6.00 P.M.

THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

SUPPLEMENTARY DOCUMENTATION

The attached papers are an additional urgent item to be added to the Agenda previously distributed relating to the above mentioned meeting.

12a Grant Thornton Update Report (Pages 1 - 18)

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

13th July 2015

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 16TH JULY 2015

GRANT THORNTON UPDATE – JUNE 2015

Relevant Portfolio Holder	Councillor Geoff Denaro
Portfolio Holder Consulted	-
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non-Key Decision

1. SUMMARY OF PROPOSALS

- 1.1 To update members on the progress in relation to the accounts for 2014/15 from Grant Thornton together with a number of general issues and developments that may impact on the Council in the future.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to note the progress and updates as included on Appendix 1.**

3. KEY ISSUES

Financial Implications

- 3.1 There are no financial implications as a direct result of this report.

Legal Implications

- 3.2 The Council has a statutory responsibility to comply with financial regulations.

Service / Operational Implications

- 3.3 The report attached at Appendix 1 presents the current position on progress from Grant Thornton in relation to the audit of the 2014/15 Statement of Accounts. The main issue that has been raised is the slight delay in the production of the Statement of Accounts and the reasons for this delay. As can be seen in the detail of the report a number of unusual circumstances contributed to the timing of the submission these included:

- Implementation of a new financial ledger
- Restructure of the finance team, turnover of staff and difficulties in recruiting to vacant senior posts
- Introduction of a new chart of accounts and changes in coding issues

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- 3.4 The accounts were submitted on Monday 6th July with the deadline of Wednesday 30th June. Officers are committed to give complete support to the External Auditors when they undertake their Audit at the end of this month to ensure that the delay does not impact on their deadline of 30th September.
- 3.5 The report also informs Members on the Emerging Issues and Developments that are relevant to the Council and may impact in the future.
- 3.6 These include
- Building a successful Local Authority Trading Company
 - Welfare Reform Review
 - English Devolution
 - 2014/15 Accounts Hot Issues
- 3.7 There are no issues that are not being addressed by officers to ensure the Council meets its statutory financial obligations.

Customer / Equalities and Diversity Implications

- 3.8 There are no implications arising out of this report.

4. RISK MANAGEMENT

- 4.1 As part of all audit work the auditors undertake a risk assessment to ensure that adequate controls are in place within the Council so reliance can be placed on internal systems. There is to be a “lessons learned” undertaken to ensure that controls are in place to support the production of the final accounts for 2015/16.

5. APPENDICES

Appendix 1 – June 2015 Grant Thornton Report

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Audit Committee Update

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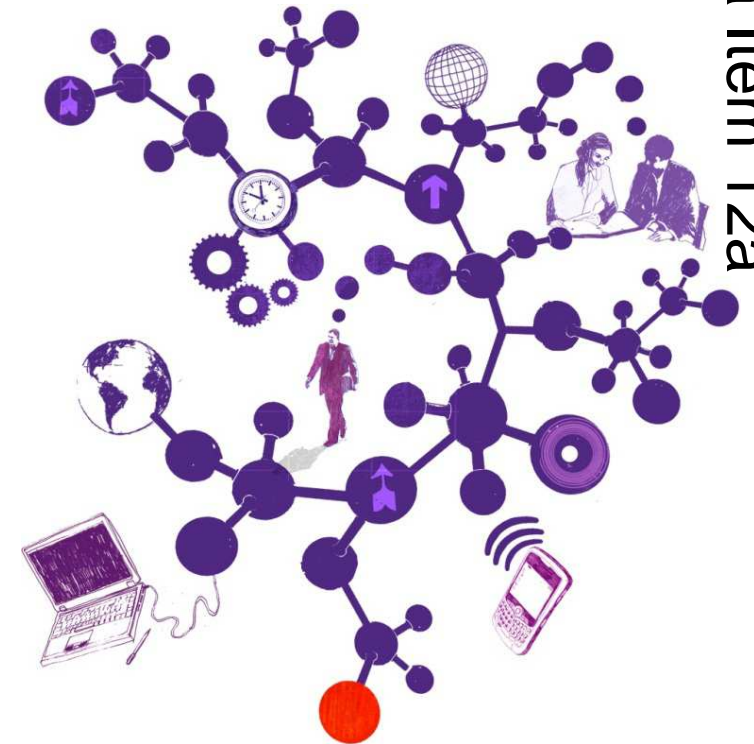
Year ended 31 March 2015

June 2015

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Agenda Item 12a

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, 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.

Accounts production and audit

We are due to start the final accounts audit on the 27 July. The Cabinet meeting to approve the accounts is scheduled for 23 September which will enable the accounts to be signed off by the 30 September.

The accounts were not available to meet the statutory deadline of 30 June, but were presented for audit on 6 July. The Executive Director (Finance and Resources) made the professional judgement that she should be satisfied with the accuracy and completeness of the accounts, and it would require a few more days to be able to sign the accounts with confidence. We agree that this was the appropriate decision to be made in the circumstance.

This report highlights a number of issues that we judge we should bring to your attention under the auditing standards. It should be noted that this year was extremely unusual in the number of changes and challenges being faced by your finance team. This included:

- Implementation of a new financial ledger.
- Balancing, reporting and coding issues relating to the implementation of the ledger required extra time to resolve
- Restructure of the finance team.
- Turnover of several key staff including the payroll manager and business support accountant
- Introduction of a new chart of accounts (CIPFA model)

None of these issues individually are unusual, however when combined led to the delay.

During May, a team of technical accountants were employed on a temporary basis to support the production of the accounts. The Executive Director (Finance and Resources) will be undertaking a 'lessons learned' exercise to inform the way forward. When we have completed the audit we will be keen to be involved in such a review.

Your Executive Director (finance and Resources) has committed to fully supporting the audit so that the 30 September deadline can be achieved.

Progress at July 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Accounts Audit Plan 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 2014-15 financial statements.</p> <p>Page 8</p>	<p>March 2015</p>	<p>y</p>	<p>We took the audit plan to the March Audit Board. At that time we had not completed our second interim visit. Under auditing standards we are required to report new risks to those charged with governance and we therefore outline in this report the new risks identified from our audit work and other subsequent events.</p> <p>At present we are not planning a significant change in our audit approach. However due to the matters raised in this report, we consider that there may be increased risks of the following:</p> <ol style="list-style-type: none"> 1) Incomplete working papers/ system reports or audit trail to support the entries in the accounts and to demonstrate complete population from which we can test. 2) Additional reconciliation adjustments 3) Access to staff as the key staff who prepared the accounts are on a temporary contract 4) Additional disclosures required for the accounts to comply with the SORP, due to the accounts production. <p>We will adjust our approach as necessary and report any changes and our conclusions in our Audit Findings Report in September.</p> <p>We have been assured by your finance team that the interim technical accountants will be available and every effort will be made to support the audit process.</p>

Progress at July 2015

Work	Planned date	Complete ?	Comments
<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 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. 	<p>1st interim January and February</p> <p>2nd Interim March 2015</p>	<p>Y</p>	<p>At our second interim we planned to review the payroll reconciliations to address our identified risk of the absence of a payroll manager for 3 months. Payroll reconciliations were not up to date in March and therefore we were unable to complete this work. Reconciliations were up to date by 2 June. We will review the year end reconciliation at our final visit later this month.</p> <p>We also discussed with your officers the need to consider the valuation of the Dolphin Centre and Council House and to consider whether an impairment was required. We will be looking for evidence of this consideration as part of the final accounts working papers.</p> <p>We reviewed the Council's IT controls. We noted that several of the matters raised in the previous year had yet to be addressed. We are currently discussing with officers the responses to the matters raised this year and will report our conclusions in our audit findings report in September. We did not consider that any of the matters provided a material risk to the accounts, although there is some risk of error and fraud.</p>

Progress at July 2015

Work	Planned date	Complete ?	Comments
<p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the <i>Council's</i> accounts • proposed Value for Money conclusion. 	<p>July- September 2015</p>	<p>N</p>	<p>The council has not met the requirement of the Accounts and Audit Regulations to produce accounts by 30 June. They were available for audit on 6 July. This means that the council has failed to meet its statutory requirements.</p> <p>As outlined earlier in this report, a number of matters combined lead to slippage in the accounts production process.</p> <p>Interim Technical Accountants have been used to produce the accounts. We have been assured that these consultants will be available to support the audit.</p> <p>We plan to start the audit on 27 July and so the delay in preparing the accounts should not directly impact on the audit or the 30 September deadline for audit sign off. It is important that the council produces:</p> <ol style="list-style-type: none"> 1) working papers in line with our requests, 2) appropriate reports to support entries and to provide enough detail to support our testing 3) staff are available and responsive to audit requests, <p>If the deadline is to be achieved. We have highlighted several issues in the accounts which need to be responded to before we start the audit.</p> <p>We are currently completing the VFM conclusion based on risks reported in the audit plan. Our work is primarily focussed on following up the matters raised in the previous year.</p>

Progress at July 2015

Issue	Planned date	Complete?	Comments
Ledger implementation	n/a	n/a	<p>As referred to above, there were implementation and operational issues that contributed to the slippage in the closedown plan. The budget reporting module has yet to be implemented and also the pressure on the finance team has meant that some routine financial controls have not been fully operational throughout the year. In our annual audit letter last year we stated that:</p> <p><i>The Audit Board and Finance portfolio holder should have regular updates on the progress of the ledger implementation project. As a minimum, internal audit should be involved in providing independent assurance that the project is being properly planned and resourced.</i></p> <p>It is our view that the response to this recommendation was not adequate. Internal audit were involved at post implementation only. Governance was not strong so that the risks were not properly recognised, reported to Those Charged with Governance and effectively managed. We have yet to see a project 'sign-off' report showing that the system is now fully operational and working properly.</p>
Ledger implementation testing	n/a March 2015	n/a	<p>Testing of the ledger implementation by the Council has been relatively light touch , with some reliance on budget holders to highlight any unusual or unexpected transactions.</p> <p>We have tested that the entries on the closing trial balance (old system) were accurately transferred to the opening trial balance (new system). No issues were identified.</p> <p>Internal audit undertook testing of 30 postings and found no issues.</p>

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Progress at July 2015

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises:</p> <p>Initial risk assessment – reported in the audit plan</p>	January & February 2015	Y	We are currently awaiting responses to queries but are planning to complete our work in July.
<p>Detailed risk assessment</p>	July 2015	N	
Housing Subsidy Audit	July 2015- November 2015	N	Some parts of the Housing subsidy testing must be completed by the accounts opinion date as material sums are included in the claim. Officers are responsible for undertaking some of the testing on our behalf. As this work is undertaken for DWP, the work must meet specific quality standards. This was problematic last year (as referred to in our grants report) and we are liaising closely with your officers to ensure similar matters are not raised this year.

Spreading their wings: Building a successful local authority trading company

Grant Thornton

Our report, 'spreading your 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

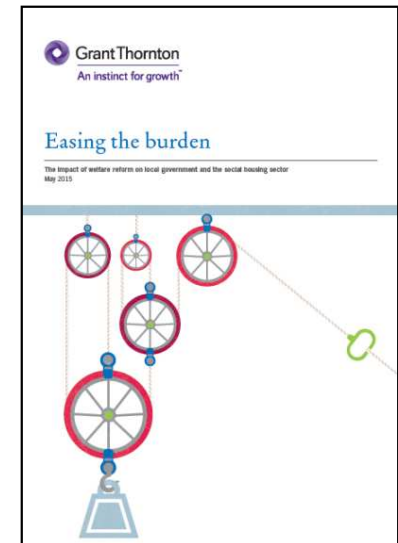
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

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.



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/Chief Finance Officer] on the headline messages from the LGA's white paper on devolution?

Understanding your accounts – Member guidance

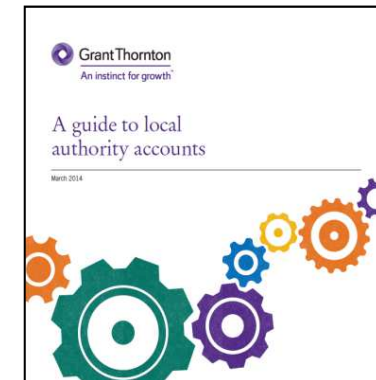
Accounting and audit issues

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 provided copies of the Guide to Local Authority accounts to the Council for distribution to the Audit Committee.



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