

Audit and Governance Committee Update for Exeter City Council

Year ended 31 March 2015

Committee Date: 11 March 2015

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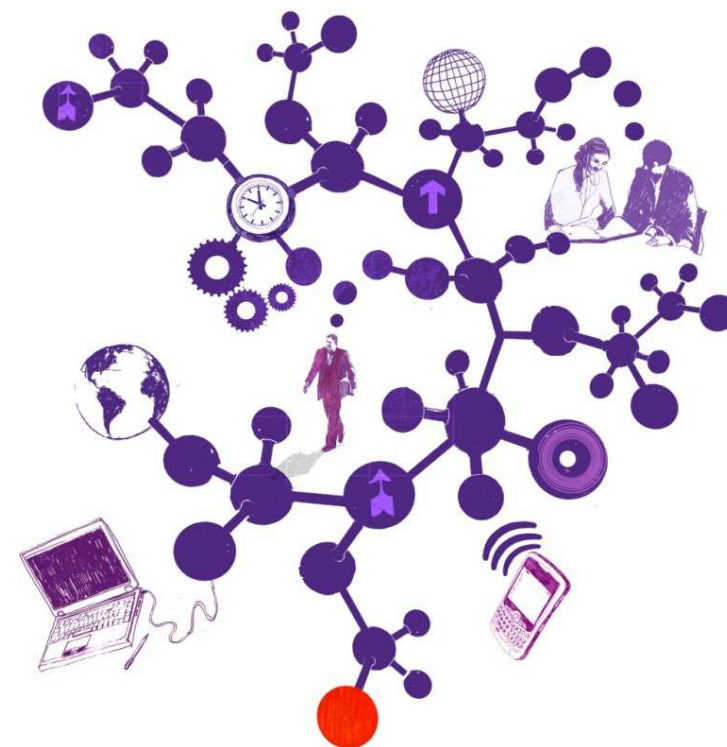
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Contents

Section	Page
Introduction	4
Progress at 10 February 2015	5
Emerging issues	8

Introduction

This paper provides the Audit and Governance 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 referred to in these updates.

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 at 10 February 2015

Work	Due By	Complete	Comments
<p>2014-15 Audit Fee</p> <p>External Audit fees are determined by the Audit Commission after a period of consultation with the audited bodies.</p>	<p>28 February 2015</p>	<p>Yes</p>	<p>In 2013/14, the Audit Commission increased the audit fee for all District Councils by £900 to reflect the fact additional audit work was required on material business rates balances.</p> <p>This additional work was necessary as auditors were no longer required to carry out work to certify NNDR3 returns. The additional fee was 50% of the average fee previously charged for NNDR3 certifications for District Councils.</p> <p>The Audit Commission has included this additional amount in all audit fees for 2014/15. The audit fee is now £77,183 for Exeter City Council.</p> <p>The indicative certification fee for 2014/15 has been set at £10,890.</p>
<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 • initial risk assessment to support the Value for Money conclusion. 	<p>30 April 2015</p>	<p>In progress</p>	<p>We undertook our initial planning work in February 2015 and will complete our work in March 2015 in line with the timetable agreed with the Council.</p> <p>We will aim to complete as much testing as possible to reduce the peak over the summer months.</p> <p>We will use the findings of this interim work to inform our audit plan, which we intend to present to the June Audit and Governance Committee.</p> <p>As in previous years, we have written to the Assistant Director, Finance and the Chair of the Audit and Governance Committee in accordance with ISA240. These letters are on the agenda for the March 2015 Audit and Governance Committee meeting and we would appreciate the responses to be considered at the following Committee meeting in June 2015.</p>

Progress at 10 February 2015

Work	Due By	Complete	Comments
<p>2014-15 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 2014-15 financial statements.</p>	30 June 2015	No	We will present our Audit Plan to the June meeting of the Audit and Governance Committee.
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • Whole of Government Accounts (WGA) opinion 	30 September 2015	No	<p>The draft financial statements need to be prepared by 30 June 2015 and the deadline for the completion of the audit is 30 September 2015.</p> <p>We will complete our work in order to present our Audit Findings Report to the Audit and Governance Committee on 23 September 2015 and issue our audit opinion by the statutory deadline of 30 September 2015.</p>
<p>2014-15 VFM Conclusion</p> <p>We are required to assess whether Exeter City Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness 	30 September 2015	No	<p>Our work will be informed by our risk assessment.</p> <p>However, medium term financial planning and the development of savings plans are likely to be key issues of focus.</p>

Progress at 10 February 2015

Work	Due By	Complete	Comments
<p>2014-15 certification work</p> <p>This work is expected to cover:</p> <ul style="list-style-type: none"> • Housing benefits. • Housing capital receipts. 	<p>30 November 2015</p>	<p>No</p>	<p>We qualified the Council's Housing Benefits return in 2013/14 and our certification report for that year is a separate agenda item for the March 2015 Audit and Governance Committee.</p> <p>We plan to make an early start on our certification work in 2014/15.</p>
<p>2014-15 Annual Audit Letter</p>	<p>31 October 2015</p>	<p>No</p>	<p>Our Annual Audit Letter summarises the findings of our audit work in the year.</p>
<p>Other activities</p> <ul style="list-style-type: none"> • We met with your finance staff in January 2015 to discuss our financial statements audit and the Council's response to the issues raised in our 2013/14 audit. We have set up monthly meetings to help our audit run smoothly. • Our annual financial statements workshops, in conjunction with CIPFA, are taking place in February and March 2015. Exeter City Council will be represented at the event in Exeter on 11 February. • We have arranged to meet with the External Auditors of Strata in order to discuss our respective timetables and the assurances we will be seeking from them. 			

Rising to the challenge

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Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

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

2020 Vision

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Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

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

Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Group accounting standards (continued)

Accounting and audit issues

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement. To do this the entity needs to consider the structure and legal form of the arrangement, the terms agreed by the parties and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Issue to consider

- Has your Assistant Director, Finance assessed the potential impact of these standards for the authority's financial statements?

Earlier closure and audit of accounts

Accounting and audit issues

The Department for Communities and Local Government (DCLG) is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is over three 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 Assistant Director, Finance put in place a plan to address the earlier close date?

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11th December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.



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