

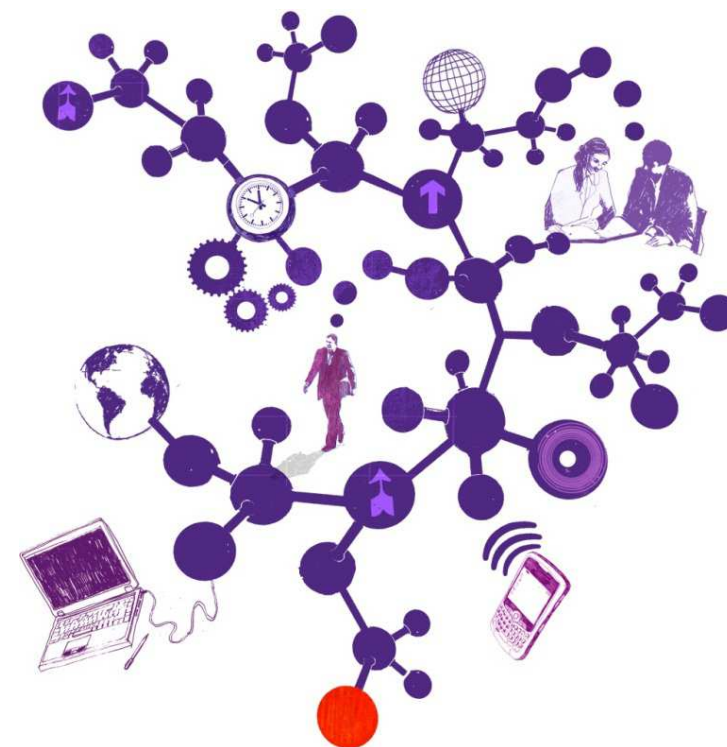
Audit and Governance Committee Update for Exeter City Council

Year ended 31 March 2015

Committee Date: 24 June 2015

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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 2 June 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>Yes</p>	<p>We completed our work in March 2015 in line with the timetable agreed with the Council. We undertook as much testing as possible to reduce the peak over the summer months.</p> <p>We have used the findings of this interim work to inform our audit plan, which is a separate agenda item for the June 2015 Audit and Governance Committee.</p>

Progress at 2 June 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	Our Audit Plan is a separate agenda item for the June 2015 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 have agreed our audit timetable with the Council and will commence work in the week beginning 20 July 2015.</p> <p>We will report our findings to the Audit and Governance Committee on 23 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 planned work has been informed by our initial risk assessment, the results of which are reflected in our audit plan.</p> <p>We will:</p> <ul style="list-style-type: none"> • Review the Council's medium term financial planning; • Assess the Council's future savings plans and how these impact on the its medium term financial plans; and • Review the Council's performance against its 2014/15 budget, including consideration of performance against its savings plans.

Progress at 2 June 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.</p> <p>We have made 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 have met with your finance staff on a monthly basis to discuss our financial statements audit and the Council's response to any emerging issues, particularly around the accounting treatments of Strata Service Solutions Limited and Exeter Canal and Quay Trust. • We have agreed our 2014/15 audit plan with the Council's Assistant Director, Finance. 			

All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

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



Provision for Business Rates Appeals

Accounting and audit issues

Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

Issues to consider

- Has your Assistant Director, Finance reassessed the methodology for making the business rates provision?
- Has your Assistant Director, Finance got arrangements in place for the estimation of appeals to be charged against the provision?

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Issue to consider

- Has Exeter City Council taken legal advice and assessed if a provision is required in the 2014/15 accounts?

Earlier closure and audit of accounts

Accounting and audit issues

In our March 2015 update we advised you of consultation being undertaken by the Department for Communities and Local Government regarding the proposed changes to the deadlines for the production of Local Government financial statements and their subsequent audit.

Legislation was recently passed to bring forward these deadlines from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 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.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.

Developing Local Authority Trading Companies

Grant Thornton Publications

Austerity has made a significant impact on local government. Our report *'Responding to the challenge: alternative delivery models in local government'* looked at the increased use of alternative delivery models to protect and develop services. This trend has continued over the last year.

Whilst some councils have always had a commercial approach, many traditionally avoided commercial considerations. This is no longer the case.

As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures. For many councils, the use of Local Authority Trading Companies (LATCs) is a step towards becoming self-financing.

Over the last five years, we have seen a significant increase in the use of different service delivery models by local government. The introduction of LATCs has been a key part of this innovation. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – they have grown into new areas such as highways, housing and education.

More recently, LATCs dedicated to the delivery of social care services have emerged.

However, the delivery of a successful company is not easy.

Our report *'Spreading their wings'* is the first in a series looking at alternative service delivery models in more detail. The report provides practical guidance – drawn from interviews with councils and from the successful companies we have worked with – 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

Copies can be obtained via your Engagement Lead or Audit Manager.





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