

Audit Committee Update

Year ended 31 March 2015

June 2015

Peter Barber

Director

T +44 (0)117 305 7784

E Peter.A.Barber@uk.gt.com

Jackson Murray

Manager

T +44 (0)117 305 7859

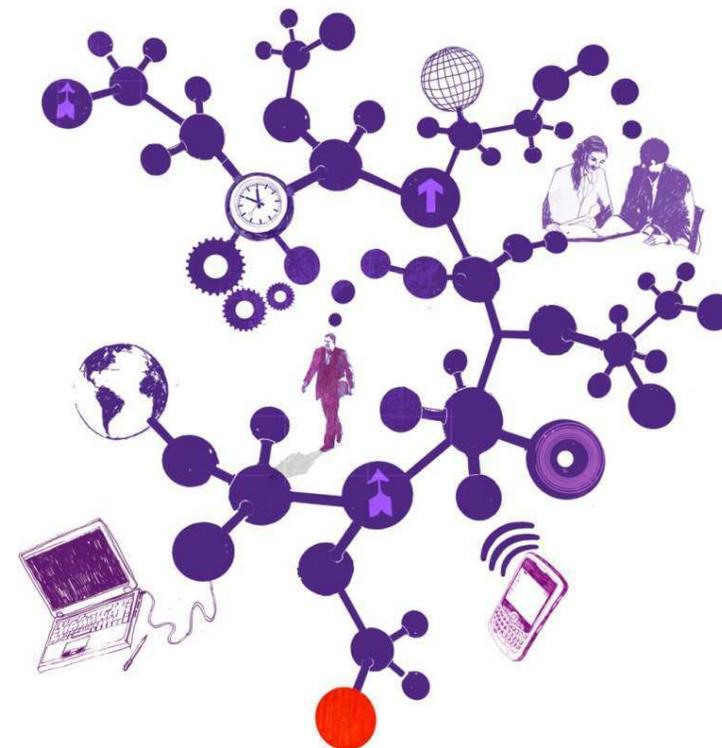
E Jackson.Murray@uk.gt.com

Katie Haines

Executive

T +44 (0)117 305 7697

E Katie.V.Haines@uk.gt.com



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:

- 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.

Peter Barber, Engagement Lead **T** 0117 305 7784 **M** 07880 456122 Peter.A.Barber@uk.gt.com
Jackson Murray, Audit Manager **T** 0117 305 7859 **M** 07825 028920 Jackson.Murray@uk.gt.com

Action – Members of the Audit Committee are asked to note this update report

Progress at May 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>	March 2015	Yes	Presented to Audit Committee in March 2015
<p>Interim accounts audit 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. 	December 2014 to February 2015	Yes	The interim accounts audit visit has been completed and the work informed our Audit Plan.
<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 Council's accounts • proposed Value for Money conclusion. 	July to August 2015	No	The final accounts audit is currently planned for completion during July and August 2015.

Progress at May 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> <ul style="list-style-type: none">• an initial risk assessment;• a detailed review of arrangements against the criteria;• bringing forward knowledge from previous audits;• reviewing key documents; and• discussion with officers.	April / May 2015	No	<p>Work has begun on the VfM conclusion and meetings have been held with client officers.</p> <p>Conclusions and final documentation remain on-going.</p>

Stronger futures: development of the LGPS

Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors.

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have full audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

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



Stronger futures:
development of the LGPS

Improving governance in local government pension schemes
February 2015



Easing the burden – the impact of welfare reform on local government and the social housing sector

Grant Thornton

Our national report, 'Easing the burden – the impact of welfare reform on local government and the social housing sector', was published in May.

This is our second welfare reform report and it follows on from our initial report 'Reaping the benefits?', to provide insight into the impact of welfare reform on English local authority and social housing organisations over the past two years.

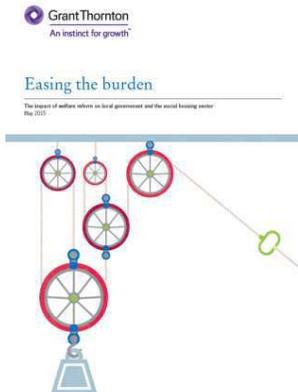
It focuses on:

- the governance and management arrangements being put in place nationally across the two sectors to deliver reform
- the early signs of how successful the reforms have been
- the upcoming issues and risks on the reform agenda in the wider context of social impact.

The key findings from our review include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those needing support
- The majority of local authorities and housing associations surveyed had seen a rise in average council tax and rent arrears since 2012/13
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.

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



Inspection into the governance of Rotherham Council

Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of Louise Casey's report. Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

Challenge question

Have members been briefed on:

- the headline messages from the inspection of aspects of Rotherham MBC's governance arrangements?
- whether there are any lessons to be learned by the authority and actions that need to be taken to strengthen its overall governance arrangements in response to the risk of child sexual abuse, including the robustness of member oversight, challenge and scrutiny?

Response: Following publication of the report work is ongoing at Gloucestershire Safeguarding board level to ensure any relevant are incorporated into the partnerships existing Child exploitation strategy. Members will then be briefed on any relevant lessons or actions relating to Cheltenham Borough council.

Help into work programmes

Local government issues

In its press release of 12 January 2015 the LGA reported that more than one million unemployed people are falling through cracks in national work schemes that are failing to reach some of the most vulnerable jobseekers. It warned that whilst councils are being left to pick up the pieces to prevent more vulnerable people slipping further into long-term unemployment and disengagement they cannot afford to continue resolving the failings of these national schemes in their communities without the appropriate funding.

As a remedy the LGA calls on the next government to commit to devolving all nationally-run education, skills and employment schemes to local areas so councils can join-up services to support their most vulnerable residents. A report published by the National Institute of Economic and Social Research (NIESR), commissioned by the LGA, explores in detail how a sample of councils across the country have provided a safety net for their most vulnerable and hardest to reach residents. The NIESR report's lead author, Dr Heather Rolfe, said:

"Local authorities have a unique position in their communities, are able to bring services together, forging partnerships and strengthening referral networks. It is through such work that they are able to help unemployed people who are beyond the reach of national programmes."

Challenge question

Have members been briefed on the headline messages from the NIESR report and its implications for the authority's strategies around community engagement, employment, regeneration and economic development?

Management response: In approving the budget for 2015/16, Members supported an initiative to increase the number of apprentices. In progressing this, the council will consider the implications / funding opportunities arising from the NIESR report.

DCLG – Build to rent scheme

Local government issues

Housing Minister Lewis Brandon announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion Build to Rent scheme, which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".

As part of its strategy of creating a bigger and better private rented sector the government has also

- published a 'How to rent' guide, so tenants and landlords know their rights and what to expect when renting privately
- published a model tenancy agreement, so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Challenge question

Have members been briefed on the government's Build to Rent scheme and other aspects of its initiative to increase the private sector housing market and its implications for the authority's housing strategy?

Management response: A briefing note has been prepared for circulation to all members and is included at the end of this report.

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.

Challenge questions

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

Management response: The Revenues Manager, in consultation with the Section 151, reviews the appeals position regularly and considers it with the county wide Chief Finance Officers in monitoring of the county wide pooling arrangements. Any financial implications will be included in the financial reports (budget and outturn reports) to council.

Early payment of pension contributions

Accounting and audit issues

During 2014/15 some local authorities paid pension fund deficit contributions covering three years (2014/15 to 2016/17). By doing this the local authority benefits from a discount on the total amount payable resulting in a lower overall charge.

Due to the amounts involved, some authorities are seeking to spread the impact of the payment over the three-year period. In doing so, they must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year as defined by regulation 30 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

We expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. The accounting judgements and treatment should reflect the advice received and should be documented accordingly.

Where an authority has received legal advice that the up-front payment can be recognised in the general fund over three years, based on our understanding of the arrangement we would expect the total amount to be reflected in the pension fund liability. This means that the pension reserve will not equal the pension liability. We expect the background to the transactions and the reason for the difference to be disclosed in a note to the accounts.

Challenge question

- Has your authority paid pension fund contributions covering more than one year and if so has your Director of Resources obtained legal advice and documented their judgement on accounting for the early payment of pension contributions?

Management response: The council has not made payments covering future years.

Earlier closure and audit of accounts

Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements 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.

Management response: GOSS are considering how the May 2018 deadline can be achieved including increased use of Purchase Order Management (POM) and monthly rather than annual accounting for fixed assets as well as adopting best practice. GOSS will work with Grant Thornton to ensure a robust plan for early closedown taking into account Grant Thornton's own resourcing implications.

References

References

The reports referred to in this Audit Committee update can be accessed through the following web links;

- Stronger futures: development of the LGPS - <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>
- Easing the burden – the impact of welfare reform on local government and the social housing sector - <http://www.grant-thornton.co.uk/en/Publications/2015/Easing-the-Burden/>
- Report of inspection of Rotherham metropolitan borough council - <https://www.gov.uk/government/publications/report-of-inspection-of-rotherham-metropolitan-borough-council>



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Build to Rent Scheme

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As part of its strategy of creating a bigger and better private rented sector the government has also –

- published a 'how to rent' guide, so tenants and landlords know their rights and what to expect when renting privately
- published a model tenancy agreement, so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Challenge question

Have members been briefed on the government's Build to Rent scheme and other aspects of its initiative to increase the private sector housing market and its implications for the authority's housing strategy?

Management response: The government's Build to Rent Scheme continues to remain open for developers seeking loan funding, on a commercial footing, to kick start the delivery of large scale private rented accommodation.

1. What is the Scheme trying to achieve?

The aim of the scheme is to increase the provision of private rented accommodation, with a view to meeting increased demand from households who struggle to be able to purchase homes of their own.

2. How will it work?

Once built, the homes will be sold on to large institutional investors, who are looking primarily to attract an ongoing revenue stream. The developer is also required to have in place a strategy for the ongoing management of these homes, either by parcelling them off to Lettings Agents or potentially Registered Providers.

3. Role of the Local Authority

The council could assist the market either by providing subsidised land to developers and/or placing a covenant on the land so that it can only be used for private rented purposes. The council could also work with Registered Providers to identify possible interest in either the development and/or management of these schemes.

4. Potential benefits of the Scheme

- It could help meet the growing demand of the private rented sector
- If a good management agent takes control of the scheme, such as a Registered Provider, this can provide long term security and well managed homes for residents who can't afford to buy a home of their own.
- Secure, well-managed private rented accommodation could help to change perceptions of the market, which may in the future transform the sector into a tenure of choice for residents.
- Increased provision of private rented accommodation could increase competition, and thereby raise standards.

5. Risks/Challenges

- This is an emerging market, and with this come some significant financial uncertainties, such as:
 - How quickly will the properties be let? Investors will need assurances that they will get a return on their investment as quickly as possible. Delivering a very large number of private rented accommodation on one site is a new concept. It is therefore uncertain how quickly they'll be taken up.
 - A balance will need to be struck between the costs of delivering a management service against the rate of return on the investment. A housing management service that charges a 10% management fee for instance will be less attractive to investors than a management company charging 5%. The trade-off is that a lower-cost management service may be lighter in terms of the services it provides. This could potentially price out some the benefits that an RP could bring with a stronger management service.
- The private rented sector has more than doubled in the past 10 years – and continues to grow. Despite this, the number of private rented homes failing to meet minimum health and safety standards has also grown, both in absolute terms and in relative terms. The theory that increasing the provision of private rented accommodation will improve standards does not therefore appear to be borne out in practice.
- It is unclear what a community would look like that is made up purely of those living in private rented accommodation. Will it be highly transient or settled? We are used to building 'balanced' communities of mixed tenure, so this would be step in a very different direction.
- Some Registered Providers are taking an interest in providing private rented homes, however the Homes & Communities Agency is considering changing the Regulatory Framework which governs RPs, which could financially dis-incentivise further access into this market.
- More private rented homes mean fewer homes for home ownership, which is currently the aspiration for most households.
- Institutional investment in the residential market could push up the price of homes further, pricing more households out of the home ownership sector.