

# Audit Committee Update

## Cheltenham Borough Council

Year ended 31 March 2016

March 2016

**Peter Barber**

Engagement Lead

T +44 (0)117 305 7897

E [Peter.A.Barber@uk.gt.com](mailto:Peter.A.Barber@uk.gt.com)

**Jackson Murray**

Manager

T +44 (0)117 305 7859

E [Jackson.Murray@uk.gt.com](mailto:Jackson.Murray@uk.gt.com)

**Katie Haines**

In Charge Auditor

T +44 (0)117 305 7697

E [Katie.V.Haines@uk.gt.com](mailto:Katie.V.Haines@uk.gt.com)



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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; 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](http://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:

- Making devolution work: A practical guide for local leaders
- 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
- Knowing the ropes: Audit Committee effectiveness review
- Reforging local Government: financial health and governance review 2015

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 7897    M 07880 456122    [Peter.A.Barber@uk.gt.com](mailto:Peter.A.Barber@uk.gt.com)  
Jackson Murray    Audit Manager        T 0117 305 7859    M 07825 028920    [Jackson.Murray@uk.gt.com](mailto:Jackson.Murray@uk.gt.com)

## Progress at 2 March 2016

Work	Planned date	Complete?	Comments
<p><b>2015-16 Accounts Audit Plan</b> 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 2015-16 financial statements.</p>	March 2016	Yes	The Audit Plan is a separate item on the agenda.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	February – March 2016	Yes	We have completed our interim audit visit, and the key messages are included within our Audit Plan.
<p><b>2015-16 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July - August 2016	Not yet due	This work has not yet commenced.

## Progress at 2 March 2016

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM 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>To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements:</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 will be required to report by exception if we conclude that 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>January – April 2016</p>	<p>Work is in progress.</p>	<p>The guidance and supporting information includes:</p> <ul style="list-style-type: none"> <li>• the legal and professional framework;</li> <li>• definitions of what constitute 'proper arrangements';</li> </ul> <p>Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified;</p> <ul style="list-style-type: none"> <li>• evaluation criteria to be applied;</li> <li>• reporting requirements;</li> <li>• LG specific guidance.</li> </ul> <p>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>Now that the finalised auditor guidance is available, we have carried out an initial risk assessment to determine our approach and have reported this in our Audit Plan.</p> <p>The findings from our work will be reported in the Audit Findings Report presented to the September meeting of the Audit Committee.</p>

# 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.



# CFO Insights— driving performance improvement

## Grant Thornton and CIPFA Market insight

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio-economic 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 providing focused insight to develop, and the evidence to support, financial decisions.

We are happy to organise a demonstration of the tool if you want to know more.



# Local Authority Trading Companies

## Grant Thornton Seminar - Building a successful local authority trading company

On 11<sup>th</sup> February Grant Thornton hosted a free client seminar, in Taunton, looking at Local Authority Trading Companies (LATC). It was attended by 29 officers from Councils in the South West. Although nobody from Cheltenham Borough Council could attend we would be happy to share our slides from the day with the Council.

As councils look for different ways to reduce costs, improve efficiency and generate income some are setting up local authority trading companies. We predict that the number of these companies will continue to grow over the next five years.

The seminar considered the themes set out in our recent report, 'Spreading their Wings', focusing on how to set up and build successful local authority trading companies.

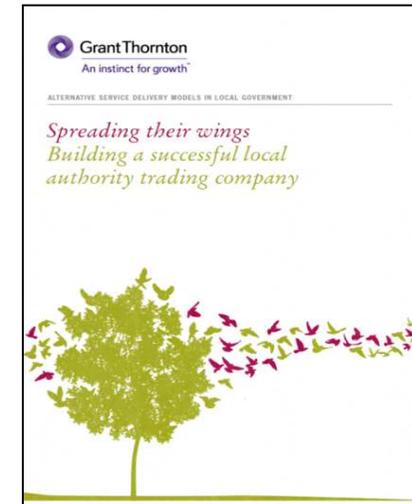
Attendees heard from Grant Thornton Local Government Advisory and Tax colleagues, with a focus on the complexities of Corporation tax, SDLT, VAT and Employment taxes when entering into such arrangements.

Martin Farrow from Buckinghamshire Care Limited shared his experiences from the Buckinghamshire Care journey "A merger between sustainability and purpose". He set the scene – underfunded social care, government savings, rising demand, and ageing population, service cutbacks mean a lot fewer people receiving services. The solution? A seismic shift in commissioning.

Hugh Lambourne from Bournemouth Borough Council explained his Council's approach to developing its commercial services "Building a successful LATC & Commercial Council". Offering an insight into why you might create an LATC or alternatively why you might choose not to trade through an LATC!

The day ended with a panel session with Martin and Hugh being joined by Sarah Longthorpe - Bournemouth Borough Council, Giles Letheren – Delt shared Services limited and Frank Wilson – Ubico Limited. A lively set of questions were posed by delegates.

Grant Thornton's next report on Joint Ventures will be available at the end of March.



# 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

# 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 on its website. 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.

### 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.

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# Results of auditors' work 2014/15

## Public Sector Audit Appointments

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. This 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 timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies, according to Public Sector Audit Appointments Limited's *Report on the results of auditors' work 2014/15: Local government bodies*.

- 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).

# IFRS 13 'Fair value measurement'

## Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

## Challenge question

- Has your Section 151 Officer reviewed the surplus assets and investment property categories to ensure what is included is correctly classified?
- Has your Section 151 Officer ensured property valuers and treasury advisers are aware of the fair value definitions under IFRS 13?
- Have the accounting policies and disclosures in your accounts been updated to reflect the IFRS 13 requirements?

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# Unlodged non-domestic rate appeals

## Accounting and audit issues

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

### Challenge question

- Has your Section 151 Officer made plans to assess the need for an unlodged non-domestic rates appeal provision?

# 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 -



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# References

## References

The reports and publications referenced within this update can be found using the following links. Hard copies of Grant Thornton publications can be obtained from your Engagement Lead or Audit Manager.

Reforging Local Government - <http://www.grantthornton.co.uk/en/insights/reforging-local-government>

Spreading their Wings – Building a successful Local Authority trading company - <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

National Audit Office 'Council accounts: A guide to your rights' - <https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

Our new website can be accessed via <http://www.grantthornton.co.uk/en/insights/?tags=local-gov&q=sustainable+communities>



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