

Audit Committee
Cheltenham Borough Council
Progress Report and Update
Year ended 31 March 2016

December 2016

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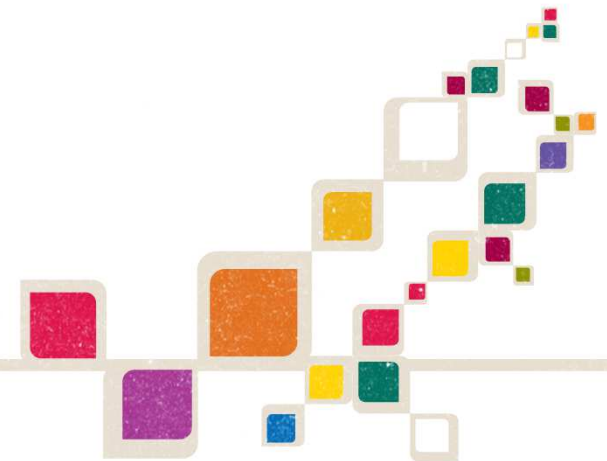
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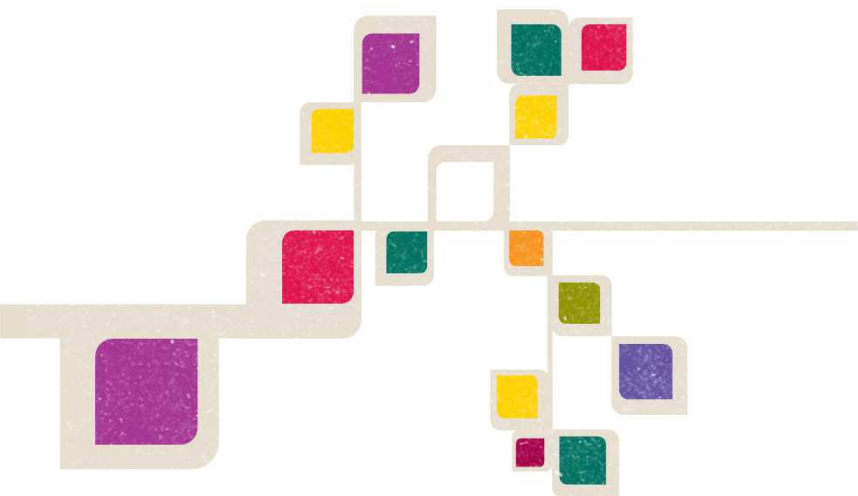
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

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. Here you can download copies of our publications:

- Building a successful joint venture company (April 2016); <http://www.grantthornton.co.uk/insights/building-a-successful-joint-venture-company>
- Advancing Closure: Transforming the financial reporting of local authority accounts (July 2016); <http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

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 Engagement Manager.



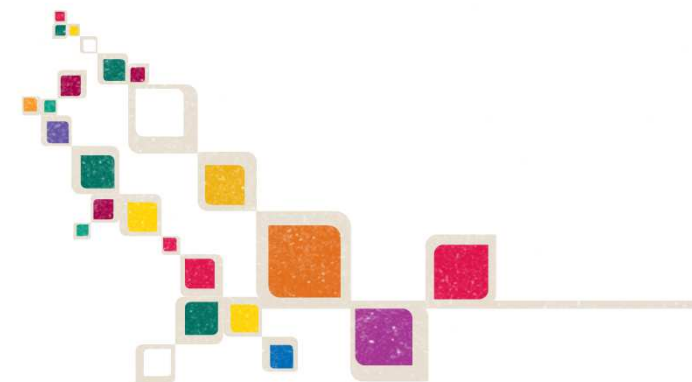
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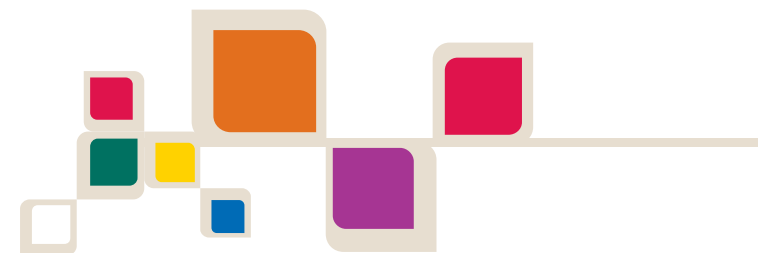


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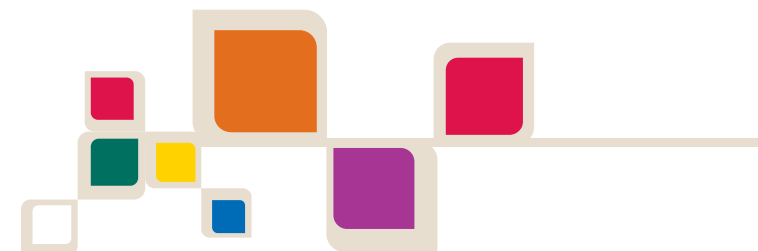


Progress at December 2016



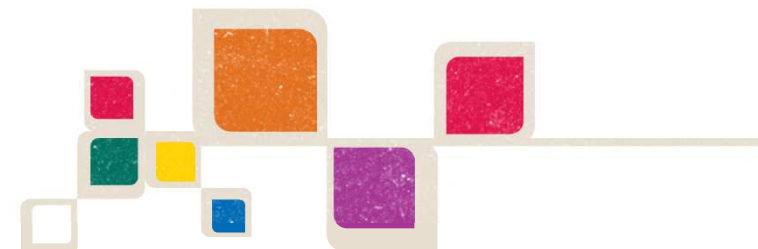
2015/16 work	Planned Date	Complete?	Comments
Annual Audit Letter	October 2016	Yes	Annual Audit Letter submitted to PSAA in October 2016 and is presented to this Committee as a separate item
Housing Benefit	June – November 2016	Yes	<p>We carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the claim is now complete. The claim was qualified due to errors identified in relation the calculation of claimant's earned income.</p> <p>Further detail provided in our Annual Certification report which is presented to this Committee as a separate item.</p>
Pooling Capital Housing Receipts return	October 2016	Yes	We carry out work to certify the Pooling Capital Housing Receipts return. Our work on the claim is now complete. No issues were identified.

Progress at December 2016



2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter' for 2016/17 by the end of April 2016</p>	April 2016	Yes	<p>The 2016/17 fee letter was issued in April 2016 and considered by the June committee.</p> <p>Our fee letter set out the scope of our 2016/17 work and included an outline timetable</p>
<p>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 2016/17 financial statements.</p>	March 2017	No	The Audit plan will be presented to the March 2017 Audit Committee
<p>Interim accounts audit</p> <p>Our interim fieldwork visit will include:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	January – February 2017	No	Issues arising from our interim visit will be set out in the Audit Plan.
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	July 2017	No	We will report our findings in our Audit Findings Report.

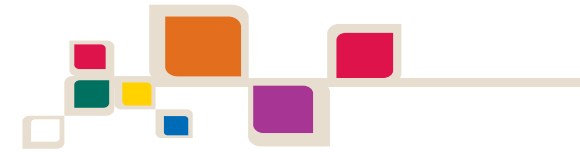
Progress at December 2016



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2016/17 VfM conclusion is set out by the National Audit Office.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VfM based on the overall evaluation criteria: <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 judgements:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <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 – March 2017</p>	<p>No</p>	<p>We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan.</p> <p>We will report our detailed findings in our Audit Findings Report.</p>

Grant Thornton Technical update





Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Accounting and audit issues

2017/18 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom Exposure Draft and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- a principles-based approach to narrative reporting
- review of the provisions on going concern reporting
- review of accounting policies provisions
- new disclosure on transaction costs for pension fund investments
- narrow scope amendments to International Financial Reporting Standards
- legislative changes
- new appendices outlining the provisions for the adoption of *IFRS 9 Financial Instruments* and *IFRS 15 Revenue from Contracts with Customers*. These new appendices will apply to the 2018/19 financial statements but have been included in the 2017/18 consultation to ensure accounts preparers have adequate time to prepare for their introduction.

The consultation closed on Friday 7 October 2016.

Grant Thornton Publications and events



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
 - high quality financial statements as a result of improved quality assurance arrangements;
 - greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
 - improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
 - allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
 - Efficient and effective systems and processes are essential
 - Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports

Grant Thornton
An instinct for growth

Advancing closure
Transforming the financial reporting of
local authority accounts

<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Events and workshops

Advancing Closure Workshop held on 19 October

Following publication of our 'Advancing Closure' report we ran a workshop in our Bristol office. The session was aimed at local authority practitioners and considered the main factors for authorities to consider in accelerating their financial reporting procedures to produce their year end accounts. The event was attended by Go Shared Service team members.

Income generation - Local Government and Private Sector Roundtable Event held on 6th October

This event brought together senior leaders from local government and the private and investment sector to stimulate cross sector debate and consider current and future funding models. The event was attended by your Section 151 Officer.

Joint Venture Seminar on 6th December

Following publication of our 'Better Together' report we held a workshop in Taunton. The event provided an invaluable insight into setting up and running joint venture companies.

Grant Thornton events



Future Events and workshops

Local Government 2016/17 Financial Reporting Training

As in previous years we will be providing financial reporting training to officers. For 2016/17 our closedown workshops will be more interactive to allow officers to discuss emerging accounting and auditing issues alongside audit teams. This event will be provided free of charge. We are currently in the process of consulting with officers on the content of our workshops, to identify what they, as preparers of the accounts would find helpful.



Grant Thornton events

Appointing your External Auditor



Introduction

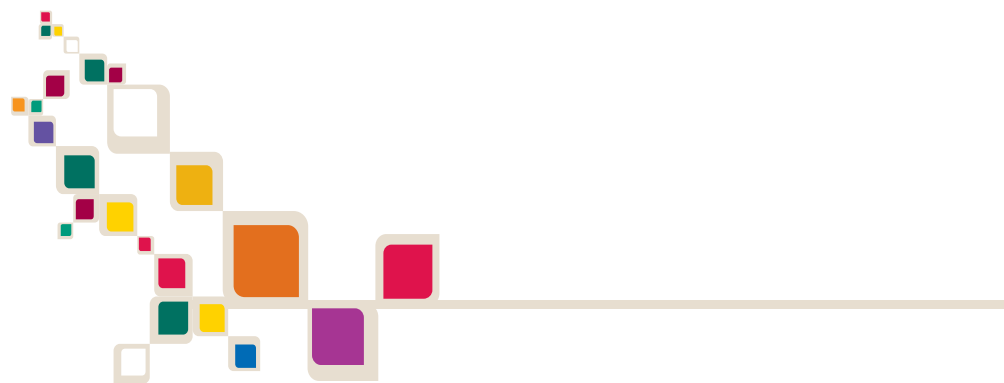
On 31st January 2014 the Local Audit and Accountability Act (LAAA) 2014 came into force. This act abolished the Audit Commission and for the first time allows Local Authorities to appoint their own auditors.

This is a significant change for many organisations. High quality external audit is one of the cornerstones of public accountability and plays an important part in the strategic, operational and financial delivery of Local Government. Done well the role can bring significant benefits.

What does this mean for your organisation?

This change means that for the 2018/19 financial year you will take on the authority to appoint your own external auditor. This will be the first time you will have the opportunity to make this appointment.

External auditors need to be in place by 31 December 2017 for the audit of the 2018/19 financial year. We would encourage organisations to begin their planning early, as there are a number of possible options to consider.



Three options are available....

Audit Procurement Options ...

The legislation sets out three possible options for you to consider:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for instance;
- join a 'sector led body' arrangement where specified appointing person status has been achieved under the regulations.

Setting up an Auditor Panel

Options 1 and 2 above require you to set up an auditor panel to advise on the selection and appointment of an external auditor. Guidance to assist you with this task has been issued by CIPFA at - <http://www.cipfa.org/policy-and-guidance/publications/guide-to-auditor-panels-pdf>.

Using a Sector Led Body

Option 3 - Public Sector Audit Appointments (PSAA) have been specified by the Secretary of State for Communities and Local Government as a person eligible to appoint external auditors in the sector. They are currently gathering support for a sector led body to make the majority of these appointments.

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Which option should we choose?

There are possible advantages and disadvantages to each option but these are likely to vary according to the type of authority and your size, geographic location etc.

Can we choose any auditor?

Under the LAAA 2014 audit firms carrying out audits of Local Government bodies have to be licensed and registered to carry out external audit services with the Institute for Chartered Accountants in England and Wales. The list can be found here..

<http://www.icaew.com/en/technical/audit-and-assurance/local-public-audit-in-england/local-auditor-register>

As the largest supplier of external audit services to Local Government bodies Grant Thornton have already completed this process and has 35 registered engagement leads across the country.

Timing and length of appointment

Auditors must be in place by 31 December 2017. The appointment can be for longer than a year but there must be a new appointment process at least once every 5 years.

Preparing for tendering

Challenge question:

Have you decided which option you want to follow?

Procurement Options – What and How

What are you procuring?

The work of your external auditors is governed by the National Audit Office's Code of Audit Practice. There is no expected change to the NAO's Code which requires external auditors :

- to be satisfied that the accounts present a true and fair view, and comply with any legislative requirements that apply to them
- to ensure that proper practices have been observed in the preparation of the accounts and
- to ensure that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their work by expressing an opinion on the financial statements and by forming a conclusion on the authority's arrangements for achieving value for money.

In addition auditors have additional powers under the Act such as responding to objections from members of the public in relation to the accounts.

Procurement Options

There are a number of procurement options open to you at this time. We have set out the main options below. In considering each option you will need to ensure that you comply with the Public Contracting Regulations (PCR) 2015 and take into account EU Procurement rules.

EU Procurement rules require authorities to advertise in OJEU where the estimated total contract value (over the duration of the contract) exceeds £172,514 for other public bodies and £111,676 for schedule 1 entities.

Option 1

Restricted procedure under the Public Contracts Regulations 2015. This is a two stage tender process : at the first stage, bidders complete a pre-questionnaire (PQQ) which is used to assess an organisation's commercial, technical and financial capabilities and provides a method of shortlisting interested parties who meet the minimum qualification criteria.

For the second stage, bidders are invited to the Invitation to Tender (ITT) which is often a more descriptive and thorough document that consider how the bidders will meet the tender requirements.

The authority will have to comply with strict procurement timescales allowing bidders 30 days to express an interest and another 30 days for submission of tenders.

Preparing for tendering

Challenge question:

Have you chosen a procurement route?

Procurement options

Option 2 – using an Open Procedure

This is a one-stage procedure, where bidders complete all tender documents (PQQ and ITT tender response) at the same time. The authority evaluate the bids and then evaluates the PQQ part of the submission. The disadvantage of this approach is that the authority may be inundated with large numbers of tenders and will be required to evaluate all bidders.

Existing frameworks

There are a number of well established frameworks across the public sector which cover the procurement of external audit services. Frameworks are valuable in that they are already EU/UK compliant and terms and conditions are pre-agreed, removing much of the burden for you in assessing suppliers and in shortening the process for appointment.

Whilst all frameworks allow for further competition, a number do allow call-off without competition, otherwise frequently referred to as direct award. This reduces administrative costs and the time taken for appointment.

This is applicable to two such frameworks, RM1502/ConsultancyONE as hosted by Crown Commercial Service, and Framework 664/Consultancy Services as hosted by ESPO.

Equally, there is an option for a mini-competition of suppliers under these and other frameworks. If you choose a mini-competition, it is useful to note that not all suppliers are on every framework.

Combined procurement – PSAA

Public Sector Audit Appointments have led the development of a national combined procurement option. This would strengthen your purchasing power but would potentially diminish your autonomy over the process.

Direct appointment

If the contract is below the PCR 2015 levels (which we believe it would be for Cheltenham should you opt for a 3 year appointment) you can make a direct appointment of an auditor. You will need to ensure that you comply with the 'below threshold' contract rules.

As with a direct appointment under a framework this reduces administrative costs and the time taken for appointment.

Next steps

We recognise that appointing your external auditor is a significant decision. We would be pleased to discuss with you the different options available to you.

Preparing for tendering

Challenge question:

Have you chosen a procurement route?



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