

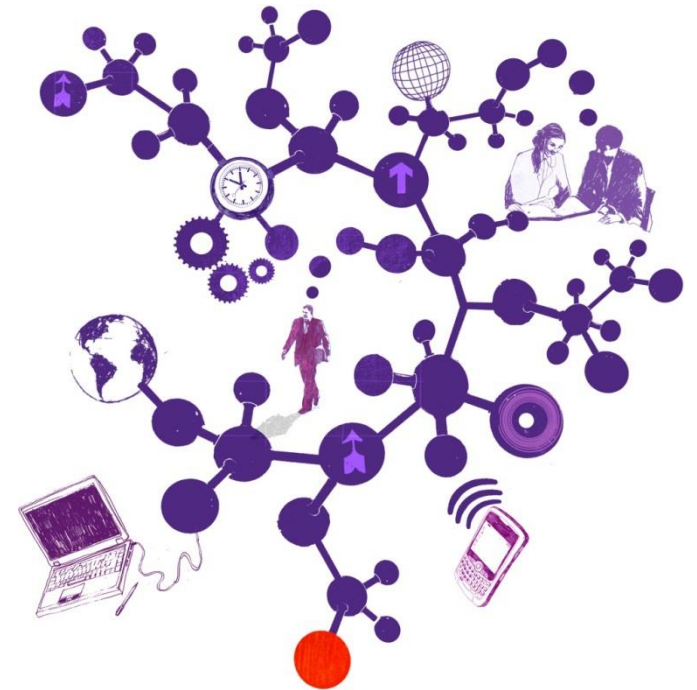
Audit Committee Update

Year ended 31 March 2016

December 2015

Alex Walling
Engagement Lead
T +44 (0) 117 305 7804
E alex.j.walling@uk.gt.com

David Johnson
Audit Manager
T +44 (0) 117 305 7727
E david.a.johnson@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 issues for consideration 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:

- 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

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.

Alex Walling Engagement Lead T 0117 305 7804 M 07880 456 142 alex.j.walling@uk.gt.com
David Johnson Audit Manager T 0117 305 7727 M 07825 028 921 david.a.johnson@uk.gt.com

Progress at 16 December 2015

Work	Planned date	Complete?	Comments
<p>Other areas of work – Certification of claims and returns 2014-15</p> <ul style="list-style-type: none"> Housing Benefits Subsidy Claim 	November 2015	Yes	The detailed testing and reporting for 2104-15 has been completed in time to meet the DWP deadline. A certification letter will be presented at the December Audit Committee.
<p>2014-15 Annual Audit Letter</p> <p>We are required to issue an Annual Audit Letter to the Council setting out the key issues arising from our work in issuing an opinion on the Council's 2014-15 financial statements which we consider should be brought to the attention of the Council.</p>	December 2015	Yes	The 2014-15 Annual Audit Letter will be presented at the December Audit Committee
<p>2015-16 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>	March 2016	Not yet due	Our plan is to be agreed in time to be presented at the March Audit Committee
<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 proposed Value for Money conclusion. 	Feb – March 2016	Not yet due	Work undertaken at the interim stage of the audit will include the initial risk assessments for the opinion and Value for Money conclusion

Progress at 16 December 2015

Work	Planned date	Complete?	Comments
<p>2015-16 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July – August 2016	Not yet due	
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2015-16 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>This is different to the criteria considered in previous years and reflects the fact that the NAO are now responsible for issuing VFM guidance.</p>	March 2016	Not yet due	<p>Drawing on the relevant requirements applicable to local bodies we will ensure proper arrangements cover the following:</p> <p>Informed decision making:</p> <ul style="list-style-type: none"> • Acting in the public interest, through demonstrating and applying the principles and values of sound governance • Managing risks effectively and maintaining a sound system of internal control <p>Sustainable resource deployment:</p> <ul style="list-style-type: none"> • Managing and utilising assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities <p>Working with partners and other third parties:</p> <ul style="list-style-type: none"> • Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities

Emerging issues and developments

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

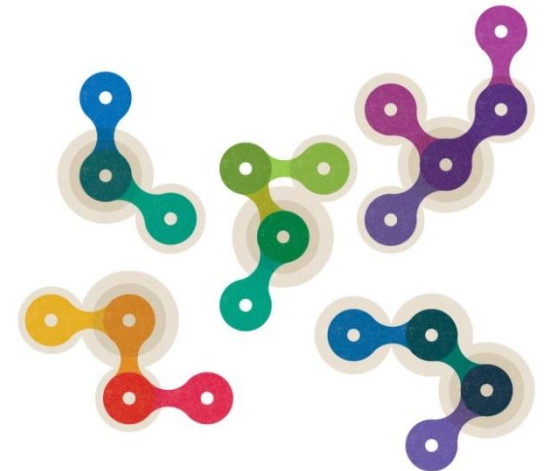
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

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



Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

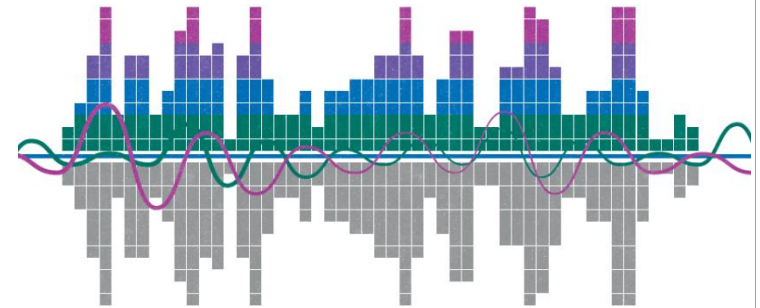
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

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



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

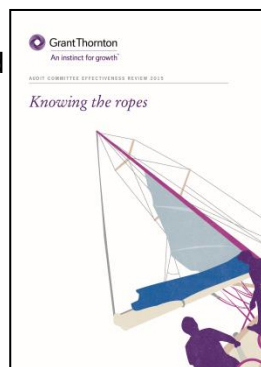
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



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.



George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Issues for Consideration

Have members:

- been briefed by the Group Manager – Finance and Asset Management on the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Issues for consideration

Have members:

- been briefed by the Group Manager – Finance and Asset Management on the government's new homes announcements and their likely impact on the Council?

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- 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
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager





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