

Audit Committee Update

Torbay Council

Year ended 31 March 2016

23 March 2016

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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

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
- 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.

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Progress at 10 March 2016

Work	Planned date	Complete?	Comments
<p>2015-16 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 2015-16 financial statements.</p>	March 2016	Yes	The Audit Plan is on the agenda of this meeting.
<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. 	Jan – March 2016	In progress	The first stage of our interim audit was in January 2016. The results of that work are reported in the Audit Plan. The second stage of our interim audit is in progress and any significant findings will be reported in the next Audit Committee update report.
<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. 	June – July 2016	Not yet due	<p>Our final accounts audit is due to start on 6 June 2016 and we will bring our Audit Findings Report to your meeting on 27 July 2016.</p> <p>We will continue to have regular discussions with officers on emerging financial issues</p>

Progress at 10 March 2016

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</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"> • 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>March - July 2016</p>	<p>In progress</p>	<p>We have carried out an initial risk assessment to determine our approach and this is reported in our Audit Plan.</p> <p>Our work will be reported in the Audit Findings Report to the July meeting of the Audit Committee.</p>

Progress at 10 March 2016

Work	Planned date	Complete?	Comments
Annual Audit Letter A summary of all work completed as part of the 2015/16 audit.	September 2016	Not yet due	
Other areas of work <ul style="list-style-type: none">• Housing Benefits Subsidy Claim• Teachers' Pension return	Sept – Nov 2016	Not yet due	
Other activities <ul style="list-style-type: none">• Our annual financial statements workshops, run in conjunction with CIPFA were held in February and March. Torbay officers attended the Exeter event on 17 February 2016.• We held a half day seminar in Taunton on 11 February 2016 on building a successful local authority company. Torbay officers were invited to the event but were unable to attend on the day.			

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- economy 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.



Innovation in public financial management

Grant Thornton Insight

In December 2015 we issued our report *'Innovation in public financial management'* which can be found On our website at:

<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

This report draws on a survey of almost 300 practitioners worldwide and includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.



Accounting for the Better Care Fund and Pooled Budgets

Grant Thornton

As the Government's service integration and devolution agenda's progress, the level of joint working between NHS bodies and councils, including the use of pooled budgets is increasing. One example of this is the Better Care Fund (BCF) which became operational on April 1 2015 with a baseline allocation to CCGs for 2015/16 of £3.46bn.

In many areas, including the South West, the value of funds committed to pooled budgets is highly material so it is important that both CCGs and councils get the accounting right.

Our sector intelligence indicated that practitioners across both the health and Local Government sector wanted further guidance on accounting for pooled budgets, including the BCF.

Grant Thornton ran a free seminar on 13 January 2016 considering the accounting issues around the BCF and Pooled Budgets. It was attended by 35 finance officers from councils and CCGs in the South West (including officers from Torbay Council). By bring representatives from both sectors together it was possible to facilitate a consistent approach to accounting. If the accounting is not consistent it could lead to material errors within accounts and also between bodies which would create difficulties with the NHS agreement of balances exercise and whole of government accounts.

The actual accounting approach is dependent on the detail of the local agreements and the operation of the funds. The seminar considered:

- relevant accounting standards
- the nature of controls and the impact on the accounting treatment
- accounts disclosure requirements; and
- the approach to auditing the funds

The seminar ended with a session on action planning.



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 -
<http://www.grantthornton.co.uk/en/insights/?tags=local-gov&q=sustainable+communities>



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 1st April 2017 and larger local government bodies a year later, on 1st April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities by 31st 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

Better Care Fund

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Healthcare Financial Management Association (HFMA) have issued a joint report examining the progress that has been made six months into the implementation of the government's £5.3bn Better Care Fund (BCF) arrangements. While the report points out that the fund has already begun to produce improved working relationships between NHS bodies and local public services, it highlights that more needs to be done to ensure the success of the BCF. The report is based on the results of a CIPFA and HFMA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites, and is available from the CIPFA website - <http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape>.

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.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

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 15th 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.

The Care Act and New Burdens

Local Government Issues: Public Accounts Committee Report

Further to the NAO reports on *Care Act first-phase reforms* and *Local government new burdens* both published in June 2015, and the hearing of the Public Accounts Committee (PAC) in October 2015 on the combined topics, the PAC has now published its report on the matter. The PAC report considers the additional cost burdens on, and uncertainty for, local councils. It also considers the government's ability to identify and respond to councils that are struggling.

Its main findings are as follows:

- following the decision to delay the second phase of the Care Act, there are concerns that people will have to pay more for their care for longer before the cap on care costs is implemented. However, as the government have announced that they will not claw back the £146m of funding that it provided to councils in 2015/16 to prepare for the second phase, local authorities will not have the financial burden that was anticipated
- the DCLG have failed to adequately identify and assess new burdens on local authorities and consider their impact, creating significant uncertainty for local authorities Councils are faced with 'unfunded pressures' which are making it 'more difficult for them to meet their statutory duties and will increase pressure on council tax'
- The report calls for the Spending Review and annual finance settlements for local authorities to 'take full account of the many cost pressures local authorities face, whether or not they meet the government's definition of a new burden'. Funding must be monitored to ensure that vulnerable people do not lose out

The full report can be found at <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/publications/>

Results of auditors' work 2014/15

Public Sector Audit Appointments

Following the closure of the Audit Commission on 31st 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 principle 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 30th September 2015.
- 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30th 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 and PFI liabilities. 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.

Highways Network Asset

Accounting and audit issues

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset from 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available.

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.



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