

AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 30 March 2015
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Black (Chairman), Daley (Vice-Chairman), Harper, Long and Perry

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1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the Meeting held on 26 January 2015

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Continued Over/:

Issued on 20 March 2015

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**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 26 JANUARY 2015

Present: Councillor Black (Chairman) and
Councillors Daley, English and Perry

Also Present: Councillors Cox and Mrs Wilson

Mr Keith Hosea of Grant Thornton (External Auditor)

51. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Harper and Long.

52. **NOTIFICATION OF SUBSTITUTE MEMBERS**

It was noted that Councillor English was substituting for Councillor Long.

53. **NOTIFICATION OF VISITING MEMBERS**

Councillor Mrs Wilson indicated her wish to speak on the report of the Head of Finance and Resources relating to the risk assessment which had been undertaken of the Budget Strategy 2015/16 onwards and her possible wish to speak on the report of the Director of Regeneration and Communities relating to the Treasury Management Strategy 2015/16.

Councillor Cox was in attendance for part of the meeting as an observer.

54. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

55. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

56. **EXEMPT ITEMS**

RESOLVED: That the items on the agenda be taken in public as proposed.

57. **MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2014**

RESOLVED: That the Minutes of the meeting held on 24 November 2014 be approved as a correct record and signed.

58. GRANT CLAIM CERTIFICATION

Gary Hunter, Benefits Manager, introduced the report of the Director of Regeneration and Communities summarising the outcome of the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefits subsidy claim submitted by the Council for the financial year 2013/14. It was noted that:

- The claim related to expenditure of £46.3m.
- The testing had identified errors in two areas, affecting a relatively small number of cases and resulting in the amendment and qualification of the claim.
- The overall assurance provided through the certification work confirmed that the Council continued to have good systems in place to ensure the accuracy of the grant claim.

In response to questions by a Member, the Benefits Manager confirmed that the Officers were reviewing the results of the certification work to ensure that the errors which had been identified did not occur in future years.

RESOLVED: That the assurance provided by Grant Thornton that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns be noted.

59. INTERIM INTERNAL AUDIT REPORT 2014/15

The Committee considered the report of the Head of Audit Partnership providing an update on work conducted by the Internal Audit Service during the period April 2014-December 2014 and highlighting the impact of the work undertaken through assessment of management's work in implementing agreed audit recommendations.

The report included details of the progress against the audit plan by quarter up to December 2014, the audit review findings to date in respect of assurance and non-assurance rated reports, the work being undertaken throughout the first half of the year to systematically follow-up on all audit recommendations that fell due by 30 September 2014 and the performance of the team in terms of customer satisfaction.

In response to questions by Members:

- The Head of Audit Partnership said that it had been concluded from the audit work that the Emergency Planning Service had weak controls to mitigate its risks and achieve its objectives. However, he was satisfied that an interim response from the Service was appropriate to the level of risks identified.
- The Head of Finance and Resources confirmed that, in terms of VAT management, the partial exemption position would be monitored more

often as a relatively small unexpected change in position could result in having to make repayments.

RESOLVED:

1. That the results of the work of the Internal Audit Service, as set out in the Appendix to the report of the Head of Audit Partnership, be noted.
2. That the revised operational audit plan for the rest of the year, as outlined in the Appendix to the report of the Head of Audit Partnership, be noted.

60. **BUDGET STRATEGY 2015/16 ONWARDS - RISK ASSESSMENT**

The Committee considered the report of the Head of Finance and Resources setting out the risk assessment of the budget strategy 2015/16 onwards. It was noted that:

- The risk assessment considered operational risks rather than the strategic risk (which related to failure to deliver a balanced budget) and the actions to mitigate these risks formed part of the service plan of the Finance Section for 2015/16. In some cases, the risks would also be reflected in other service plans.
- The budget strategy report to be submitted to the Cabinet would have regard to the provisional financial settlement announced on 18 December 2014.

The Committee was of the view that the risk assessment identified the appropriate risks and that the general work of the Council in monitoring the budget and the specific mitigation measures proposed were satisfactory.

However, the Committee expressed concerns in relation to the level of balances and the future planned activity of the Council. Whilst it was noted that balances were currently in excess of the agreed minimum level and that, in addition to the direct mitigations of the risks, the Council retained a specific balance of £500,000 as a resource set aside against the risk of commercial failure of one or more commercial projects, the Committee felt that the work completed on the medium term financial strategy did not suitably bring together all of the issues so that the maximum financial exposure identified for all activities could be seen in relation to the available resources that would be utilised if plans were to fail.

Arising from the discussion, the Head of Finance and Resources undertook to refer a Member's concerns about the need for investment in public conveniences in the town centre to the appropriate service managers.

RESOLVED: That the Cabinet be recommended to agree the risk assessment of the budget strategy for 2015/16 onwards as set out in

Appendix D to the report of the Head of Finance and Resources subject to the level of cover available to mitigate the risks associated with the future planned activity of the Council being reviewed and monitored.

61. TREASURY MANAGEMENT STRATEGY 2015/16

In accordance with CIPFA's Code of Practice on Treasury Management, the Committee considered the report of the Head of Finance and Resources setting out the draft Treasury Management Strategy for 2015/16, including the Treasury and Prudential Indicators.

It was noted that the total core cash figure provided in paragraph 1.7.3 of the report should read £3.8m and not £4.8m.

Ellie Dunnet, Chief Accountant, summarised the changes proposed to the existing strategy which included the following:

- Investing additional core cash of up to £3m for over 1 year if rates were to improve, with the option to use this amount to invest in property funds;
- Including overseas institutions within the Council's counterparty list where the country's sovereign rating is the same as or better than the UK's AA+ rating and the institution itself is of a high credit quality; and
- Giving the Head of Finance and Resources delegated authority to invest within the certificate of deposit market to access highly secure counterparties.

A Member suggested that a review be undertaken to see whether the Council could gain better rates for its investments by, for example, using external fund managers.

The Chief Accountant explained that, in order to protect taxpayers' money, the Council's investment priorities were:

- Security of Capital
- Liquidity
- Yield

The aim was to achieve the optimum return on investments with proper levels of security and liquidity. Funds were invested short term to maintain the liquidity required to reinvest for longer periods if rates increased. External fund managers did operate within the parameters set by local authorities, but there were varying degrees of risk. However, this option could be re-examined.

The Committee indicated that it was content to endorse the draft Treasury Management Strategy for 2015/16 for submission to the Cabinet and the Council.

RESOLVED: That the Cabinet be recommended to agree the draft Treasury Management Strategy for 2015/16, as set out in the Appendices to the report of the Director of Regeneration and Communities, for submission to the Council.

62. AUDIT COMMITTEE UPDATE - JANUARY 2015

Keith Hosea introduced the report of the External Auditor on the progress to date against the 2014/15 Audit Plan. The report also provided a summary of emerging national issues and developments that might be relevant to the Committee together with a number of challenge questions in respect of these emerging issues.

Mr Hosea drew the Committee's attention to proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. The Chief Accountant confirmed that Officers were confident that they would be able to achieve this deadline.

RESOLVED: That the External Auditor's progress report, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

63. DURATION OF MEETING

6.30 p.m. to 7.50 p.m.

Agenda Item 8

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 30 MARCH 2015

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Ellie Dunnet

1. EXTERNAL AUDIT - UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

1.1 Issue for Decision

- 1.1.1 To consider the responses prepared by management and the Audit Committee Chair to the external auditor's enquiries.

1.2 Recommendation of Head of Finance And Resources

- 1.2.1 That the Audit Committee notes and comments on the responses prepared by management and the Audit Committee Chair, attached at **Appendix A** and **Appendix B** to this report.

1.3 Reasons for Recommendation

- 1.3.1 To comply with International Auditing Standards the external auditor needs to establish an understanding of the management processes in place to detect fraud and to ensure compliance with laws and regulations. The external auditor is also required to make enquiries of management as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document management's view on some key areas affecting the financial statements.
- 1.3.2 In addition to the above, the external auditor also needs to gain an understanding of how the Audit Committee maintains oversight over these processes.

1.4 Alternative Action and why not Recommended

- 1.4.1 No alternative action is recommended. The Audit Committee are required to approve the Statement of Accounts and therefore need to be assured that the information submitted to the external auditor is sufficiently robust and can be relied upon.

1.5 Impact on Corporate Objectives

1.5.1 None.

1.6 Risk Management

1.6.1 Failure to achieve an unqualified audit opinion by the statutory deadline represents a reputational risk to the council. The committee therefore needs to seek assurances from officers that there are adequate controls over the key financial systems to ensure that the Statement of Accounts is materially accurate.

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

1.8 Relevant Documents

1.8.1 Appendices

1.8.2 **Appendix A** - Management Response

1.8.3 **Appendix B** – Response of the Audit Committee Chair

1.8.4 Background Documents

None.

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

Discussions with Management

Date

Venue Maidstone Borough Council

Present Rachel Patton ICA
Elie Dunnet Chief Financial Accountant

6

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2014/15?	2014/15 is the first year of the Business Rates Pool with KCC, and any retained growth will need to be accounted for appropriately. Some disclosure notes may change in order to reflect this.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies are kept under review throughout the year. There are no material changes expected to the council's accounting policies.
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	There are no known changes.
How would you assess the quality of the Council's control environment, including the system of internal control?	<p>The quality of the Council's internal control processes is assessed in the Head of Internal Audit's annual report on the effectiveness of the Council's framework for governance, risk management and control. This is to be completed by the year-end.</p> <p>Internal Audit reports up to December 2014 have been reviewed and have been unqualified. Discussion with the Head of Internal Audit, identified that the Council's system of internal control is generally sound.</p>
How would you assess the process for reviewing the effectiveness of internal control?	The Corporate Leadership Team undertakes an annual review of internal controls and this is reported in the Annual Governance Statement. Internal Audit reviews the effectiveness of

	internal control on an ongoing basis and reports the results to senior management and the Audit Committee.
How do the Council's risk management processes link to financial reporting?	A risk assessment on the Council's 2014/15 Budget Strategy was considered by the Audit Committee. Quarterly budget monitoring reports to the Corporate Leadership Team and Cabinet identify financial risks. Monthly Management Accounts are sent to budget holders.

Auditor question	Response
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	Procedures are in place to ensure compliance with financial regulations and contract procedure rules. These elements of the Council's constitution formally identify the procedures required in relation to financial transactions to reduce the risk of fraud. All financial systems maintained by the Council are subject to an annual review by Internal Audit and are monitored by the Head of Finance & Resources who takes responsibility for approving all contractual commitments greater than £50,000. Payments exceeding £40,000 are approved by the Chief Accountant, Head of Finance and Resources or s151 Officer. A dedicated fraud team is in place to identify and respond to fraud relating to Benefits and Council Tax fraud. The council also have a whistle blowing charter and anti-fraud and corruption policy in place.
What has been the outcome of these arrangements so far this year?	No specific fraud risks have been identified in respect of internal Council business.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Benefits and Council Tax.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None have been identified.
Have any reports been made under the Bribery Act?	No.
As a management team, how do you communicate risk issues (including fraud) to those charged with	Regular consultation between the Director of Regeneration & Communities (S151 Officer), the Head of Finance & Resources and the Head of Audit Partnership on actions taken to



governance?	identify and respond to fraud. Strategic Risk Register in place and Internal Audit carry out an exercise at year end with the insurance company Zurich. There is a regular agenda item at Corporate Leadership Team meetings via the Corporate Governance Group.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	These matters are communicated to staff through the policies and other documentation on the Council's intranet and through staff briefings and team meetings. The Council has adopted a Code of Conduct for employees, which forms part of the Staff Handbook.
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Any litigation or claims brought against the council are assessed by the council's legal team. These are brought to the attention of the finance team for financial reporting purposes and accounted for in accordance with accounting standards.
Is there any use of financial instruments, including derivatives?	The council do not use any complex financial instruments.
Are you aware of any significant transaction outside the normal course of business?	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
Are you aware of any guarantee contracts?	No.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	Only in relation to Benefits and Council Tax.
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	None have been identified to date, confirmed in discussion with Monitoring Officer.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	There was a routine HMRC check-up in July 2014, mainly focused on payroll which did not identify any significant issues.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	Critical judgements are disclosed at note 2 to the draft financial statements. These consist of Pensions, Business Rates Appeals provision, PPE valuations, and service contracts (Waste Collection and Park & Ride).
Where the financial statements include amounts based on	Estimates are made taking into account historical experience, current trends and other

significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	<p>relevant factors. The areas where there is a significant risk of material adjustment are:</p> <ul style="list-style-type: none"> • Property, Plant & Equipment • Pensions Liability • Arrears • Financial Instruments. <p>Details of accounting estimates, nature of data used and the degree of uncertainty will be provided in the financial statements and supporting working papers.</p>
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The Council has been notified of a number of potential claims arising from former employees exposed to asbestos during their period of employment with the Council. The Council's previous insurers MMI are reviewing these claims and settlement figures will be calculated if liability is established. Small amounts are involved in this.
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	<p>A risk assessment of the 2015/16 budget strategy was undertaken; this report was considered by the Audit Committee and recommended to Cabinet for acceptance.</p> <p>Assessment of the going concern basis will be carried out at year end.</p>
Although the public sector interpretation of IAS1 means that the financial statements should be prepared on a going concern basis, management is still required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	The Council has adopted a five year budget strategy which sets out both revenue and capital projections. A major review of the budget strategy is planned for 2015/16 alongside the Strategic Plan review in time for 2016/17. This will involve projecting the level of resources available alongside growth pressures; there will be a risk assessment of the level of savings required to achieve a balanced budget without reducing General Fund balances below an acceptable level.
Can you provide details of those solicitors utilised by the	Pinsent Mason – possible joint venture.

Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	DACBeechcroft – Enterprise Hub. Eversheds – ICT agreement & pensions issues. Trowers and Hamlyn – MKIP employment model.
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Capita Asset Services provides treasury management advisory services. Harrisons have been consulted for Valuations and Insurance services. KPMG are consulted for VAT advice.
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No specific issues have been reported.

Response from Audit Committee Chair

Fraud risk assessment

Auditor question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	<p>The council has assessed the risk of material misstatement in the financial statements due to fraud and concluded that robust procedures are in place to ensure that this risk does not materialise. This has been determined through regular presentations to members on financial and audit matters and a conscious effort made by officers. The following management processes have allowed the Council to arrive at this conclusion:</p> <ul style="list-style-type: none"> • The Council's constitution tasks service managers with control of financial resources. • Quarterly reporting of budget monitoring along with the monitoring of financial performance on other balance sheet items is formally reported to the Corporate Leadership Team and to Cabinet. • Risk assessment of the final accounts process and peer review of material elements of the statements by senior officers. • Presentation of the draft financial statements to the Audit Committee for review and challenge.
What are the results of this process?	Awareness and vigilance amongst members and officers. No specific risks have been identified to date.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>Procedures are in place to ensure compliance with financial regulations and contract procedure rules. These elements of the Council's constitution formally identify the procedures required in relation to financial transactions to reduce the risk of fraud. All financial systems maintained by the Council are subject to an annual review by Internal Audit and are monitored by the Head of Finance & Resources who takes responsibility for approving all contractual commitments greater than £50,000. All payments greater than £40,000 are approved by the Chief Accountant, Head of Finance and Resources or s151 Officer. A dedicated fraud team is in place to identify and respond to fraud relating to Benefits and Council Tax fraud.</p> <p>The council also have a whistle blowing charter and anti-fraud and corruption policy in</p>

	place.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No specific fraud risks have been identified in respect of internal Council business. The dedicated fraud team has identified and investigated a considerable number of Benefit frauds and improper applications for Council Tax Single Person Discount.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes. The Corporate Leadership Team undertakes an annual review of internal controls and this is reported in the Annual Governance Statement. The most recent report to the Audit Committee on 14 July 2014 contained the Head of Audit Partnership's opinion that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
If not, where are the risk areas and what mitigating actions have been taken?	No specific risk areas have been identified.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	None have been identified.
Are there any areas where there is a potential for misreporting?	None have been identified.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	Through regular consultation and stringent examination of the accounts, budgets, strategic risk register and update reports.
What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Head of Internal Audit provides an annual report on the work of the Internal Audit team and comments on the adequacy and effectiveness of the Council's governance framework governance, risk management and control. The Committee also receives an annual Benefit Fraud report. The quarterly Internal Audit reports presented to the Audit Committee also highlight the assurance levels for individual audits. The Head of Internal audit is also able to report matters to the Audit Committee Chair should they arise between meetings. The committee also considers reports from external audit and has the opportunity to

	question the report authors during meetings.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council's constitution includes an Officers Code of Conduct which provides guidelines on the standards expected of staff. The Code of Conduct is rigorously applied and any breaches may result in the application of formal disciplinary procedures.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a Whistleblowing Charter which identifies how staff are able to report any concerns about potential fraud. The management team are open and approachable to staff who may have concerns to report. No significant issues have been reported during 2014/15.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	All Members and Senior Officers are required to complete an annual declaration of interests that includes details of any finance-related transactions with the Council. The results of this process will be included in the 2014/15 Statement of Accounts.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?	The dedicated fraud team has identified and investigated a considerable number of Benefit Fraud and improper applications for Council Tax Single Person Discount. Robust arrangements are in place to prevent and detect this type of fraud.

Law and regulation

Auditor question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Council uses the Monitoring Officer and the Policy and Scrutiny Section to identify and communicate all new and changed legislation throughout the organisation. This is also a focus of internal audit reviews.
How does management gain assurance that all relevant laws and regulations have been complied with?	Compliance with legislation and action to comply where legislation will change is expected to form a part of the service plan of affected services. Internal Audit has carried out a number of reviews that consider compliance with laws and regulations during the year.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Through regular meetings and briefings. Any concerns regarding non-compliance are raised with the Council's Monitoring Officer or through the whistleblowing channel. No such concerns have been raised during 2014-15. The committee also considers reports from both Internal and External Audit throughout the course of the year which provide assurance over compliance with relevant laws and regulations
Have there been any instances of non-compliance or	None have been identified.

suspected non-compliance with law and regulation since 1 April 2014?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Any litigation or claims brought against the council are assessed by the council's legal team. These are brought to the attention of the finance team for financial reporting purposes and accounted for in accordance with accounting standards. Ultimately any matters of significance would be reported to the Audit Committee.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Council has been notified of a number of potential claims arising from former employees exposed to asbestos during their period of employment with the Council. The Council's previous insurers MMI are reviewing these claims and settlement figures will be calculated if liability is established.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	A routine review was conducted by HMRC inspectors during July and August 2014. No significant matters indicating non-compliance with laws and regulations were reported. There have been no further reports from regulatory bodies.

Agenda Item 9

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 30 MARCH 2015

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Ellie Dunnet

1. EXTERNAL AUDITOR'S AUDIT PLAN 2014-15

1.1 Issue for Decision

1.1.1 To consider the External Auditor's Audit Plan for 2014-15 as attached at **Appendix A** to this report.

1.2 Recommendation of Head of Finance and Resources

1.2.1 That the Audit Committee notes the content of the audit plan as attached at **Appendix A**.

1.3 Reasons for Recommendation

1.3.1 The external auditor produces an annual audit plan for the financial statements audit opinion and value for money conclusion. As in previous years, this work will be undertaken by Grant Thornton, the appointed auditors. Representatives from Grant Thornton will be in attendance at the meeting to present the report and answer any questions raised by members of the committee.

1.3.2 The Audit Committee is asked to note this report as part of the delivery of its responsibilities in relation to external audit.

1.4 Alternative Action and why not Recommended

1.4.1 The report details the external auditor's plan for ensuring the delivery of the audit opinion and value for money conclusion by the statutory deadline and notes the significant risks identified, the results of work undertaken to date and the anticipated audit fee. It is considered appropriate for the committee to receive this information at this time; therefore no alternative action is recommended.

1.5 Impact on Corporate Objectives

- 1.5.1 The financial statements audit opinion and value for money conclusion are a mechanism through which accountability and value for money can be demonstrated to the public. In this respect they are considered to support the achievement of corporate objectives.

1.6 Risk Management

- 1.6.1 The audit plan helps to mitigate the risk of failing to meet the statutory deadline for the audit opinion and value for money conclusion. For 2014-15 this must be completed the 30 September 2015.

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

X

- 1.7.2 The anticipated audit fee for 2014-15 is £81,210, which covers the financial statements audit and grant certification work. This represents an increase of £900 from the fee letter presented to this committee in July 2014. The increase relates to additional audit procedures on material business rates balances and disclosures in the financial statements which auditors will need to carry out in the absence of certification work previously undertaken on the non-domestic rates return.

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – External Auditor’s Audit Plan 2014-15

1.8.2 Background Documents

None

IS THIS A KEY DECISION REPORT?

THIS BOX MUST BE COMPLETED

Yes

☐

No

☒

If yes, this is a Key Decision because:

.....

Wards/Parishes affected:

.....

The Audit Plan for Maidstone Borough Council

Year ended 31 March 2015

30 March 2015

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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 the Council 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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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Partnership working

- You work in partnership with a number of other district councils through the Mid Kent Partnership
- ensuring partnership governance arrangements are appropriate is key to continued success. Working with your partners, the governance arrangements are being strengthened

2 LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16.
- At the same time local authorities are facing increasing demands for school places and adult social care services.

3. New governance arrangements

- The Council has made a decision to revert to a committee system from May.

4. Timetable for financial reporting

- The Accounts and Audit Regulations 2015 come into effect from 1 April 2015. These bring forward the local government reporting timetable for published accounts to 31 July in 2017/18. In 2017/18 draft financial statements will need to be prepared by 31 May.

5. Specific issues

- The Council has launched a Strategy of Commercialisation as part of its response to reducing funding from central government

Our response

- We will monitor the changing governance structures as part of our value for money conclusion.

- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will maintain a watching brief on the change to the governance arrangements during our audit.

Although not an issue for 2014/15 we will

- continue to work with you to help identify ways of streamlining the process for preparing the financial statements.

- We will consider progress against your Commercialisation Strategy as part of our value for money conclusion.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12)

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2. Legislation

- Local Government Finance settlement

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

5. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

We will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

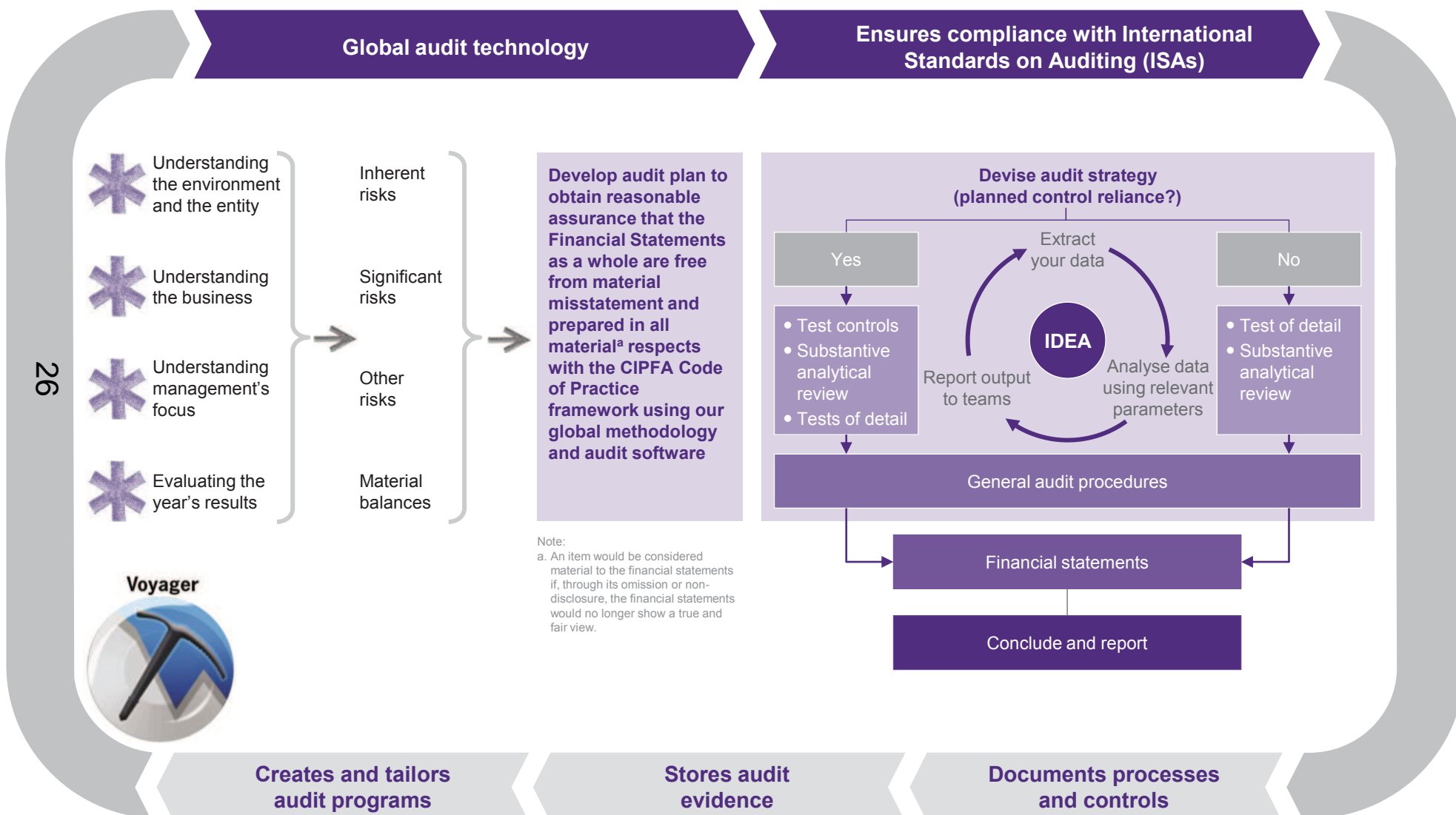
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
27 The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Maidstone Borough Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable.• there are robust controls to prevent and detect material misstatement of revenue, including monitoring by senior management.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none">• Review of entity level controls to ensure they address risk of management override.• Review of the basis of accounting estimates, judgments and decisions made by management in previous years to assess if there are risks for the current year.• Review of controls around processing of journal entries and testing of journals in the first 10 months of the year.• Testing of journal entries for months 1 - 10 <p>Further work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management at year-end.• Testing of journal entries for the final 2 months and as part of closedown.• Review and testing of unusual significant transactions.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
<div>Operating expenses</div> <div>28</div>	Completeness Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none">Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2015. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed, except that we need to review year-end reconciliation controls later in the year. Further work planned: <ul style="list-style-type: none">Search for unrecorded liabilities either side of the balance sheet date.Test purchase orders system to identify unrecorded liabilities not accrued for.Document the Council's accruals process, review and test a sample of accrued amounts.

Other risks identified (continued)

Other risks	Description	Audit Approach
Welfare Expenditure	Valuation – gross Welfare benefit expenditure improperly computed	Work completed to date: <ul style="list-style-type: none"> Identification and walkthrough of controls on the housing benefits system. Further work planned: <ul style="list-style-type: none"> Agree housing benefits paid per the ledger to the housing benefits system and reconcile to the housing benefits subsidy claim. Substantive testing to check system parameters; the calculation of a sample of benefit cases ; analytical review of expenditure; and checking the claim is correctly generated from system using the software provider's guidance notes.
29 Employee remuneration	Completeness Employee remuneration and benefit obligations and expenses understated	Work completed to date: <ul style="list-style-type: none"> Identification and walkthrough of controls on the payroll system. Performed substantive testing of employee expenses during the first eleven months of the year. Further work planned: <ul style="list-style-type: none"> Reconcile employee remuneration per the payroll system to the general ledger. Perform substantive testing of employee expenses in month twelve Perform trend analysis of movements in total employee costs and follow up testing on unexpected movements. For the pension fund liability recognised in the accounts, review the basis of the scheme, evaluate the work performed by the scheme actuary and test the basis on which the liability is recognised in the financial statements.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken an assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- We will review the robustness of savings plans included in the Council's medium term financial strategy and in particular the impact on reserves in the next 3 to 5 years.
- We will review your report on the implementation of shared services and determine whether they have helped to improve the arrangements for ensuring value for money of the Council's services. In particular, we will consider how you have addressed the difficulties in the planning service .
- We will review the basis of setting and monitoring delivery of your capital programme.
- We will review your process for updating the risk register and ensuring it reflects all relevant risks, and is used as a tool to manage risks proactively.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>There are some controls that only operate at year end. We will walkthrough the operation of these at our next audit visit.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>We have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed generally to have been implemented in accordance with our documented understanding.</p>	<p>We did not identify any significant deficiencies, which we consider to result in material misstatement of your financial statements.</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	We will complete our journals testing as part of our year end audit in July. The results of this work will be reported to the Audit Committee in our Audit Findings Report.
Early substantive testing 33	We have tested a sample of 25 employees, out of a total sample of 28, in order to determine whether or not expenditure is valid, and payroll costs (PAYE, NI, Pension) have been calculated correctly.	<p>Our interim work in this area has not identified any issues that we wish to draw to your attention.</p> <p>We will complete our testing for the remaining part of the year as part of our year end audit in July. The results of this work will be reported to the Audit Committee in our Audit Findings Report.</p>
Value for money	<p>We have completed our initial risk assessment which is based on our review of:</p> <ul style="list-style-type: none"> • your committee minutes and papers • your budget setting report and medium term financial strategy; • your quarterly monitoring reports for both financial and non-financial performance; • internal audit reports; and • discussions with key officers. <p>The work that we plan to carry out as a result is set out earlier in this plan.</p>	We will carry out more detailed work during March and April and report our findings in the Audit Findings report in September.

Key dates



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Date	Activity
5 – 9 January 2015	Planning
3 – 13 March 2015	Interim site visit
30 March 2015	Presentation of audit plan to Audit Committee
29 June – 31 July 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Head of Finance & Resources and Chief Accountant
September 2015	Report audit findings to the Audit Committee
By 30 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	67,300
Grant certification	13,910
Total fees (excluding VAT)	81,210

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, will be shown under 'Fees for other services.'

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Agenda Item 10

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 30 MARCH 2015

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Ellie Dunnet

1. AUDIT COMMITTEE UPDATE - MARCH 2015

1.1 Issue for Decision

- 1.1.1 To consider the report of the external auditor which updates the Committee on progress with the 2014-15 audit and provides a summary of emerging national issues and developments. Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

1.2 Recommendation of the Head of Finance and Resources

- 1.2.1 It is recommended that the Audit Committee notes the external auditor's update report attached at **Appendix A**.

1.3 Reasons for Recommendation

- 1.3.1 External audit services are provided by Grant Thornton who successfully tendered for the five year contract from 2012-13 following the abolition of the Audit Commission's audit practice.
- 1.3.2 This report provides an update on progress with the 2014-15 audit and informs the Audit Committee of a number of relevant emerging issues and developments.
- 1.3.3 Members have previously commented that they have found this type of report to be useful.

1.4 Alternative Action and why not Recommended

- 1.4.1 Given the respective responsibilities of both the external auditor and the Audit Committee, an update report of this nature is judged to be appropriate for consideration. To not consider the report could have an adverse impact on the Audit Committee's ability to discharge its responsibilities in relation to external audit and governance.

1.5 Impact on Corporate Objectives

1.5.1 The report is focused on ensuring that the auditor's opinion on the 2014-15 financial statements is issued by the statutory deadline of 30 September 2015.

1.6 Risk Management

1.6.1 This report supports the committee in the delivery of its governance responsibilities. It also helps to mitigate the risk of non-compliance with the statutory timetable for the production and audit of the annual accounts through timely communication of any potential issues.

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Audit Committee Update March 2015

1.8.2 Background Documents

None

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

Audit Committee Update for Maidstone Borough Council

Year ended 31 March 2015

30 March 2015

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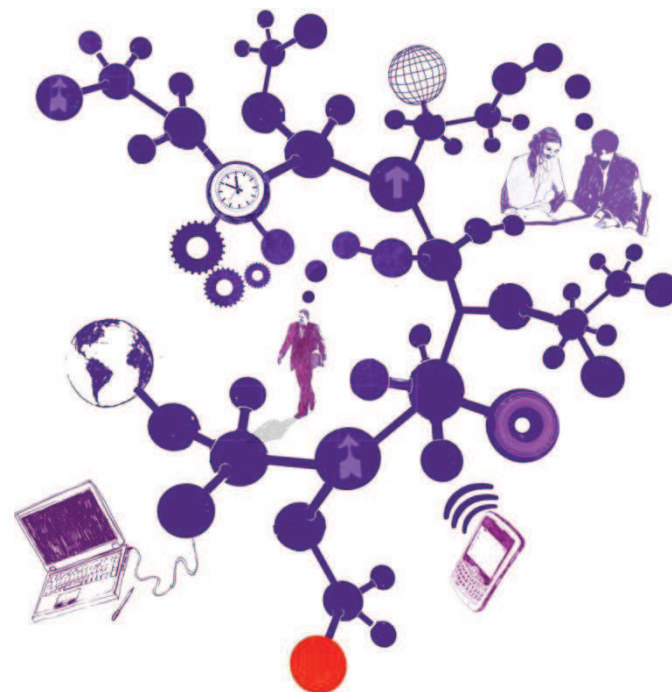
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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. 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 Darren Wells, your Engagement Lead or Keith Hosea, your Audit Manager.

Progress at March 2015

Work	Planned date	Complete?	Comments
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 your 2014-15 financial statements.	March 2015	Yes	We present the Audit Plan to this meeting, which sets out the risks we have identified in our audit and the work we propose to carry out to address these.
Interim accounts audit Our interim fieldwork visit includes: <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 	January 2015 March 2015	N/A	We updated our understanding of your control environment and systems in January. We have carried out further work in March including some early testing of transaction streams (journals, payroll, and operating expenditure testing). We have reflected initial findings from this work in the Audit Plan referred to above.
2014 -15 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts 	July 2015	N/A	We will report the findings from our audit of your financial statements to the September meeting of this Committee.

Progress at March 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014-15 VfM conclusion comprises: <ul style="list-style-type: none"> • Review of your arrangements to secure financial resilience in the foreseeable future; • Review of your arrangements to challenge how to secure value for money. 	March 2015 July 2015	N/A	We have carried out the initial risk assessment for this work, which is reflected in the Audit Plan which we present to this meeting. Further work to assess your arrangements is in progress and we will report a summary of our findings in our Audit Findings Report in September.
2014/15 Certification of claims We expect that the housing benefit subsidy claim will be the only return we are required to certify this year.	June to July 2015	N/A	
Other activity undertaken We have shared our briefing on 'Decluttering your accounts: Kent' with the Chair of the Audit Committee and the Chief Accountant.	March 2015	Yes	This briefing provides a comparative analysis based on the 2013/14 published accounts showing Maidstone's position compared with other Kent districts. The intention of the briefing is to spark a local discussion and contribute to authorities' efforts to streamline their accounts.

Emerging issues and developments: accounting and audit issues

Provision for business rates appeals

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 question

- Has the Council reassessed the methodology for making the business rates provision and put in place arrangements to estimate appeals to be charged against the provision?

Accounting and audit issues

Inclusion of overtime in the calculation of holiday pay

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Challenge question

- Has your authority taken legal advice and assessed if a provision is required in the 2014/15 accounts?

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.

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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.

Emerging issues and developments: Grant Thornton

All Aboard? – Local Government Governance Review 2015

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

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Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through many other agencies. This implies a greater role for scrutiny and a need to make sure local public sector bodies' arrangements are as transparent as possible for stakeholders.

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



Stronger futures: development of the LGPS

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 and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

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.

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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 specific internal 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.



Emerging issues and developments: local government issues

Independent Commission into Local Government Finance

The Independent Commission into Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Challenge question

Have members been briefed on the key findings of the Independent Commission's final report?

Local government issues

Help into work programmes

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."

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Local government issues

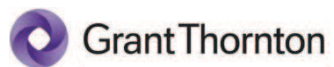
DCLG – build to rent scheme

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



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