

Business Efficiency Board Update for Halton Borough Council

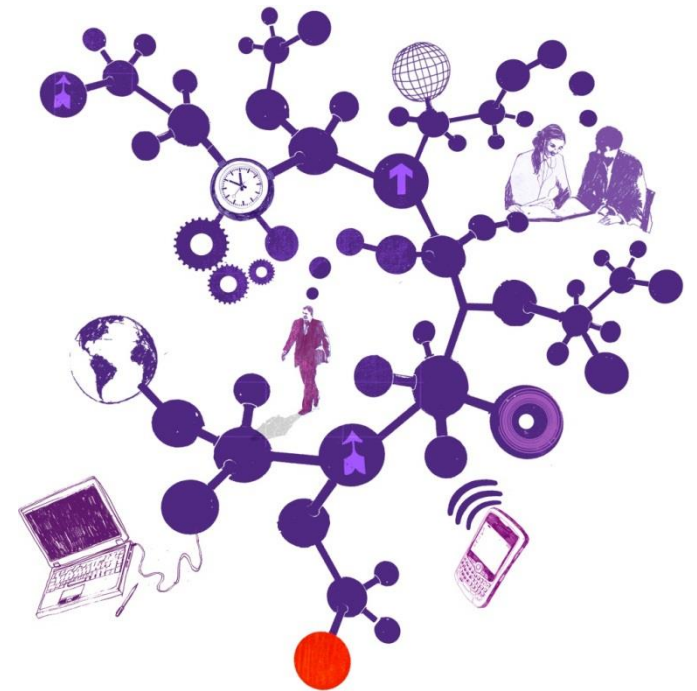
Year ended 31 March 2014

May 2014

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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 as a local authority
- includes a number of challenge questions in respect of these emerging issues which the Board may wish to consider.

Members of the Business Efficiency Board can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Reaping the Benefits': Welfare reform changes; 'Responding to the challenge: alternative delivery models in local government', '2016 tipping point?', 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at May 2014

| Work | Planned date | Complete? | Comments |
|--|-----------------------------|-------------|---|
| <p>2013-14 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 your 2013-14 financial statements.</p> | April 2014 | In progress | The Audit Plan that summarises the findings of our audit planning and our approach to the audit of the Council's accounts and Value for Money (VfM) was presented to the last Board. |
| <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 • developing our risk assessment for our Value for Money conclusion work. | November 2013 to April 2014 | In progress | Our interim fieldwork is complete. Our findings were included in the Audit Plan presented to the last Board. |
| <p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion the Council's accounts • considering the impact of the final accounts audit work for our VFM Conclusion • Whole of Government Accounts | June to September 2014 | Not started | We will issue our Audit Findings (Report to those charged with governance). This will set out the findings of our accounts audit and VfM work for the consideration of those charged with governance. |

Progress at May 2014

| Work | Planned date | Complete? | Comments |
|--|---------------------------|-------------|--|
| <p>Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises the consideration of two criteria:</p> <ul style="list-style-type: none"> • proper arrangements in place for securing financial resilience. • proper arrangements for challenging how it secures economy, efficiency and effectiveness. | January to September 2014 | In progress | We are finalising our risk assessment and our detailed work has started. |
| <p>Other areas of work – certification of government grant claims under the Audit Commission regime. We will certify your 2013-14 government grant claims under the arrangements prescribed by the Audit Commission.</p> | February to November 2014 | Not started | |
| <p>Other areas of work – independent report on RGF claim You asked us to provide a report on your Regional Growth Fund claim</p> | February 2014 | Yes | Unqualified report given |
| <p>Other activity undertaken Other service lines within Grant Thornton UK LLP have undertaken VAT advice and Employee Solutions work for the Council.</p> | On-going | In Progress | |

Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Councils keep New Homes Bonus

Local government guidance

Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme;
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account;
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training ;
- Allowing councils outside London to keep all of their **New Homes Bonus** and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use

Governance practice needs to move forward to keep pace with the increasing risks that local authorities face

Grant Thornton

Local government governance review 2014 - Working in tandem

This is Grant Thornton's third annual review of governance in local government'. It is based on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils, fire and rescue authorities, and police bodies, comparing them to our best practice criteria, responses from 80 senior council officers and members to our survey and a range of case studies illustrating good practice. The report focuses on three areas:

- Risk leadership - authorities need to develop a risk appetite that allows new ideas to be explored, and ensure this appetite is transmitted to all levels of the organisation. It is encouraging that more than 90% of our survey respondents felt their organisation encouraged well-managed risk taking and innovation. Other responses struck a more cautionary note as almost one third of respondents had concerns about the blame culture in their organisation and almost two fifths of respondents felt there was a lack of clear leadership from members about risk appetite. Good risk leadership entails delivering assurance on the areas where local authorities face the greatest risk. In some local authorities, risk management needs to step up a gear to provide full assurance about critical areas of responsibility and satisfy the ever-increasing level of scrutiny and regulation.
- Partnerships and alternative delivery models - The range of partnerships and alternative delivery models (ADMs) now being adopted by councils and fire authorities shows how much change and innovation there is in the local government sector, but these new arrangements bring new risks. Also, the increased fragmentation of public service delivery is raising concerns about the level of transparency and accountability for service delivery. The challenge for local authorities is to implement robust and proportionate governance arrangements in new delivery models without stifling innovation.
- Public communication - The duty to communicate with the public on finance and governance continues to be treated largely as a compliance exercise, rather than as an opportunity to engage meaningfully on these important areas. Our review of explanatory forewords to the accounts and AGSs for 150 councils, fire authorities and police bodies found that, despite achieving an overall improvement in quality over the previous years, most only met minimum standards rather than providing genuine insight. We have seen some moves towards improving the presentation of the accounts, but they continue to be long and impenetrable.

Governance practice needs to move forward to keep pace with the increasing risks that local authorities face, and the rapidly evolving relationships and delivery methods the sector is now entering into. In parallel, greater clarity is required in public reporting to give greater transparency and to address the demands of the interactive expectations of the public.

Understanding and challenging the accounts

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A guide to local authority accounts

Local authority audit committee (or equivalent) members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. They also play a key role in ensuring accountability and value for money are demonstrated to the public.

However, local authority financial statements are complex and can be difficult to understand: they must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government. IFRS provides a comprehensive framework (over 3,000 pages of mandatory requirements) for the production of financial statements in the public and private sector. This framework is continually being refined.

Grant Thornton has prepared this guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.



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