

Business Efficiency Board Update

Year ended 31 March 2015

May 2015

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Introduction

This paper provides the Business Efficiency Board 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.

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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

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 2015

Progress against plan

on track

Opinion and VfM conclusion

all planned to be met

Outputs delivered

Fee letter, Progress Reports and Audit Plan delivered to plan

Audit work	Planned date	Complete?	Comments
<p>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 the Council's 2014-15 financial statements.</p>	<p>March 2015</p>	<p>Complete</p>	<p>We sent the 'Planned fee letter for 2014/15' to the Council on 24 April 2014 and presented it to the Board on 11 June 2014. The Audit Commission recently confirmed an updated scale fee of £140,392 to take into account a supplementary fee for audit work on business rates.</p> <p>The Audit Plan will be presented to this meeting of the Business Efficiency Board.</p>
<p>Interim accounts audit Our interim fieldwork visit including:</p> <ul style="list-style-type: none"> • updated review of the Council control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	<p>December 2014 to March 2015</p>	<p>In progress</p>	<p>We have built on our knowledge of the Council following the audit last year.</p> <p>We have substantially completed our interim work and issues arising are set out in the Audit Plan presented to this meeting of the Business Efficiency Board.</p>

Progress at May 2015

Audit and certification work	Planned date	Complete?	Comments
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements and Whole of Government Accounts (WGA) • proposed opinion on the Council's accounts and WGA • proposed Value for Money conclusion. 	June to September 2015	Not yet started	
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises the two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> • The organisation has proper arrangements in place for securing financial resilience. The focus will be on whether the Council has robust systems and processes to manage effectively financial risks and opportunities, 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 focus will be on how the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. 	January to September 2015	In progress	<p>The detailed guidance from the Audit Commission has been published on its website for the benefit of auditors and audited bodies. This includes the key areas for consideration that will be reviewed under both the criteria.</p> <p>We have carried out an initial risk assessment to determine our approach and report this in our audit plan.</p>
<p>Other areas of work – certification work under the Audit Commission Regime</p> <ul style="list-style-type: none"> • 2013/14 - Housing Benefit (HB); Two transport (TRA) - Mersey Gateway and Silver Jubilee Bridge • Grant Certification 2014/15 – Housing Benefit; transport claims 	<p>HB 28 November 2014</p> <p>TRA 31 December 2014</p> <p>November and December 2015 respectively</p>	<p>2013/14 complete</p> <p>2014/15 not yet started</p>	<p>The letter reporting the outcome of our certification work 2013/14 was presented to the February 2015 BEB meeting</p> <ul style="list-style-type: none"> • The Housing Benefit claim - certified with no qualification letter and a small amendment. • The Silver Jubilee Bridge and Mersey Gateway Bridge transport claims - certified with no amendment or qualification letters.

Progress at May 2015

Non-audit services work	Planned date	Complete?	Comments
<p>Other activity undertaken* – claims and returns You asked us to provide a report on a number of claims that do not fall under the Audit Commission regime:</p> <ul style="list-style-type: none"> independent report on Teachers' Pensions return (PEN); agreed fee £4,200 independent report on Regional Growth Fund claim (RGF); agreed fee £3,110 	PEN 28 November 2014. RGF Feb 2015 (revised date June 2015)	PEN complete RGF re-scheduled	<ul style="list-style-type: none"> We completed the Teachers' Pensions return by the deadline; there were no amendments and nothing to report by exception. The final fee was the same as the agreed fee of £4,200. The DCLG has recently informed the Council of new deadlines for RGF claims - 15 June 2015 for submission by the Council and 30 June for the auditor's report.
<p>Other activity undertaken* – tax Other service lines within Grant Thornton UK LLP have undertaken Tax (Employee Solutions) work for the Council:</p> <ul style="list-style-type: none"> Tax; agreed fee £8,750 	By March 2015	Substantially complete	Tax work comprises: Construction Industry Scheme training workshop; review of the tax treatment of the Council's salary sacrifice scheme; and advice relating to the Mersey Gateway Crossings project.
<p>Other activity undertaken* – VAT Other service lines within Grant Thornton UK LLP have undertaken VAT advice and Tax (Employee Solutions) work for the Council:</p> <ul style="list-style-type: none"> VAT; agreed fee £25,800 - £27,800 	By March 2015	Substantially complete	VAT work includes advice and queries on: the development of Norton Priory; the pooled budget; option to tax; Runcorn Hill Park Café; the treatment of dilapidations; s106; GPark Widnes; Assist Education.

Note re: Other activity undertaken*

- We are required to disclose in writing to the Council the auditor independence assessment and summary of non-audit services and related safeguards; and that we are independent and the objectivity of the audit partner and audit staff are not impaired. We confirm that we are satisfied that our independence as external auditor to the Council will not be impaired by any of this additional work. The tax and VAT work will be led and undertaken by a team separate from the audit team; our work does not involve making decisions on management's behalf. The certification work is in line with certification work completed under the Audit Commission framework; the scope does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.
- We are required to seek specific approval from the Audit Commission for Grant Thornton to undertake additional work over a threshold of 20% of the audit fee. We can confirm that the Audit Commission has noted our arrangements to ensure independence and approved the additional fee work noted above.

Grant Thornton training and publications

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Accounts workshops for local government officers:

Officers attended our Grant Thornton / CIPFA workshops in March for preparers of accounts at local government bodies.

Grant Thornton workshops for members

Grant Thornton's Midlands Local Government Audit Committee Member Network has published its programme of events for 2015. This included, for example, the February workshop on Governance Challenges and Priorities for 2015 – covering Financial integrity, reinforcing audit quality, improving information quality and focusing on assurance. This programme has been shared with the Chair and Vice Chair. We are planning to run a similar programme of events in the Northwest in the future. Forthcoming workshops are listed below:

- **Fit for Purpose following the Elections:** Undertaking self-assessments and using skills audits to identify gaps for training. This will also include an update on key financial changes to support your review of the draft financial statements. Birmingham - 8 July 2015.
- **The Evolving Local Government Audit Committee Agenda:** Understanding and managing key risks – particularly in relation to saving plans, the assurance framework and alternative delivery models. Birmingham - 21 October 2015

Forthcoming publications:

Grant Thornton is the appointed external auditor to around 40% of local government bodies in England, giving us an excellent insight into the key issues facing the sector and the solutions being adopted across the country. From research, meeting with key people, carrying out presentations and workshops, and attending audit committees, we find that many of the key issues raised and risks faced are common to many authorities. We have a programme of publications for up-to-date insight and analysis from our technical, sector and service teams – such as our December 2014 report 'Rising to the Challenge' on financial health at English local authorities.

Planned publications relevant to local authorities include:

- Welfare Reform (second report)
- Health and Wellbeing Guide (Place Analytics)
- Alternative Delivery Models (2nd report)
- Where Growth Happens (2nd report)

Stronger futures: development of the Local Government Pension Scheme

Grant Thornton

Our second review on governance in local government pensions scheme (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 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.

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 Engagement Manager.



Stronger futures:
development of the LGPS

Improving governance in local government pension schemes
February 2015



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on 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.

Inspection into the governance of Rotherham Council

Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of [Louise Casey's report](#). Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

Care services for people with learning disabilities and challenging behaviour

Local government issues

The National Audit Office (NAO) published its report, [Care services for people with learning disabilities and challenging behaviour](#) on 4 February 2015. It concludes that the Government has not met its central goal of moving people with learning disabilities and challenging behaviour out of hospital by 1 June 2014, because it underestimated the complexity and level of challenge in meeting the commitments in its action plan.

Following the exposure in May 2011 of abuse of patients at the Winterbourne View Hospital, the Department of Health set out its action plan in the 'Winterbourne View Concordat' for moving people with learning disabilities and challenging behaviour out of hospital and into community care. At September 2014 however there were still 2,600 inpatients with learning disabilities in mental health hospitals, although NHS England's stated ambition is to discharge 50% of these into "more appropriate care settings" by 31 March 2015.

As the NAO also report that there is no financial incentive for local commissioners to bring such patients home. They have to bear the additional costs of expanding local community services to meet the patients' needs, following discharge from hospital, when NHS England had centrally funded patients' care in mental health hospitals



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