

Audit & Risk Committee Update

Wolverhampton City Council

Year ended 31 March 2016

March 2016

Mark Stocks

Engagement Lead

T 0121 232 5437

E Mark.C.Stocks@uk.gt.com

Nicola Coombe

Engagement Manager

T 0121 232 5206

E Nicola.Coombe@uk.gt.com

David Roper

Assistant Manager

T 07825 522950

E David.T.Roper@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit & Risk 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 & Risk Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- Knowing the ropes: Audit Committee effectiveness review
- Reforging local Government: financial health and governance review 2015

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

Progress at March 2016

Work	Planned date	Complete	Comments
2015-16 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 2015-16 financial statements.	March 2016	Yes	We continue to assess the risks facing your Council and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate. If there are any changes to our plan between our initial risk assessment and the delivery of your opinion we will discuss this with the Director of Finance before presenting to the Audit & Risk Committee.
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • documenting our review of the Councils control environment • documenting our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February-March 2016	In progress	We will: <ul style="list-style-type: none"> • discuss any technical issues early including asset valuations and disclosure, • undertake as much early testing as possible, • continue to meet with Senior officers to ensure our understanding of your business is up to date. We will continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud
2015-16 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July- September 2016	Not started	We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. We have discussed the changes in the national timetable in future years with your finance team and agreed that we will move towards delivering this work ahead of the national timetable.

Progress at March 2016

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion: <i>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</i></p> <p>To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. <p>We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p>	February- July 2016	In progress	<p>The guidance and supporting information includes:</p> <ul style="list-style-type: none"> • the legal and professional framework; • definitions of what constitute 'proper arrangements'; • guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified; • evaluation criteria to be applied; • reporting requirements; • CCG specific guidance. <p>The guidance is available at https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p> <p>Now that the finalised auditor guidance is available, we will carry out an initial risk assessment to determine our approach and report this in our Audit Plan. We have held initial meetings with key officers as part of this risk assessment.</p> <p>Our work will be reported in the Audit Findings Report presented to the September meeting of the Audit & Risk Committee.</p>

Progress to date (continued)

Work	Planned date	Complete ?	Comments
Grant work (PSAA regime) We plan to certify the following claim: <ul style="list-style-type: none"> Housing Benefits Claim 2015/16 (BEN01) 	June – November 2015	Not started	We will not prepare a Certification Plan on the basis that there is only one claim under the PSAA regime and the fee is communicated via the annual fee letter. Progress will be reported through this update report at each meeting and we will report our conclusions to you once completed.
Annual Audit Letter A summary of all work completed as part of the 2015/16 audit.	October 2016	Not started	We will summarise our findings from the 2015/16 audit and report to the Audit Committee & Risk Committee.
Engagement with the Council since the last Committee meeting	January- March 2016	In progress	<ul style="list-style-type: none"> Updates with the Head of Internal Audit and Chief Accountant to ensure we are aware of progress on key issues. Liaison meeting with the Chair of the Audit & Risk Committee and Internal Audit Update meeting with the Director of Finance Introductory meeting with the Managing Director and Strategic Directors. On-site demonstration of the CFO insight tool to officers Invite to GT half day seminar on accounting for pooled budgets – including the Better Care Fund. Invite to GT Housing Benefits workshop

Reforging local government: Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.



CFO Insights— driving performance improvement

Grant Thornton and CIPFA Market insight

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

We have provided a demonstration of this tool to officers on 25 January 2016.



CIPFA reports and publications

Local Government Issues

Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1st April 2017 and larger local government bodies a year later, on 1st April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities by 31st December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor

Better Care Fund

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

Accounts - public rights of inspection and challenge

Local Government issues: National Audit Office

Council accounts: a guide to your rights

The NAO has published an updated version of Council accounts: a guide to your rights on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

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

Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15th July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

The Care Act and New Burdens

Local Government Issues: Public Accounts Committee Report

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

Its main findings are as follows:

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

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

Results of auditors' work 2014/15

Public Sector Audit Appointments

Following the closure of the Audit Commission on 31st March 2015, Public Sector Audit Appointments (PSAA) became responsible for appointing auditors to local Government bodies and for overseeing the delivery of consistent, high-quality and effective external audit services. The Audit Commission previously published Auditing the Accounts reports for Local Government bodies covering the 2012/13 and 2013/14 financial years. The reports summarised the results of the work of auditors appointed by the Commission at local bodies. This is the first such report published by PSAA, and it summarises the results of auditors' work at 509 principle bodies and 9,755 small bodies. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies, according to Public Sector Audit Appointments Limited's *Report on the results of auditors' work 2014/15: Local government bodies*.

- for principal bodies, auditors at 345 of 356 councils (97 per cent) were able to issue the opinion on the accounts by the statutory accounts publication date of 30th September 2015.
- 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30th September 2015.
- for the second year in a row there have been no qualified opinions issued to date to principal bodies.
- the number of qualified conclusions on value for money arrangements has remained consistent with the previous year at 4 per cent (17 councils, one police body and one fire and rescue authority).

IFRS 13 'Fair value measurement'

Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

Challenge question

- Has your CFO reviewed the surplus assets and investment property categories to ensure what is included is correctly classified?
- Has your CFO ensured property valuers and treasury advisers are aware of the fair value definitions under IFRS 13?
- Have the accounting policies and disclosures in your accounts been updated to reflect the IFRS 13 requirements?

Highways Network Assets

Accounting and audit issues

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

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

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

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which we have provided to you and we will provide further briefings as further details become available.

Challenge question

- Has the CFO considered whether your authority is within the scope of the 2016/17 accounting requirements for HNA?
- Where relevant, does your authority have an Implementation Plan to meet the revised timetable?
- Has the Audit Committee been briefed on progress against the plan?

Better Care Fund

Accounting and audit issues

The Better Care Fund was launched on 1 April 2015 to ‘...drive closer integration and improve outcomes for patients and service users and carers’. The intention was to set up the fund as a pooled budget with NHS organisations and local authorities contributing into a single pot that is used to commission or deliver health and social care services.

In practice, different Better Care Fund agreements have different and sometimes complex arrangements. As a result determining the correct accounting can be difficult and there is no one size fits all approach. NHS and local government partners need to agree on accounting for such arrangements to ensure that not only are there no material errors in their own accounts but also that there are no material errors on consolidation into Whole of Government Accounts.

NHS and local government partners therefore need to consider the specific terms of their agreements and considering where the control and risks lie in line with the definition of control in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. Individual authorities also need to consider whether they are acting as a principal or an agent. Judgement may be required, and may therefore need to be disclosed as a critical judgement in the accounts.

Although the local government timetable is moving forward, the NHS timetable is still significantly earlier so local authorities will need to include dates in their closedown plan to give NHS colleagues the information they need to prepare their accounts in good time for these deadlines.

Challenge question

- Has your CFO considered and agreed with partners the accounting requirements for the Better Care Fund and has this treatment?

Unlodged non-domestic rate appeals

Accounting and audit issues

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

Challenge question

- Has your CFO made plans to assess the need for an unlodged non-domestic rates appeal provision?

Website re-launch

Grant Thornton

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below -
<http://www.grantthornton.co.uk/en/insights/?tags=local-government&q=sustainable+communities>





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