

# West Devon Borough Council Audit Committee Update

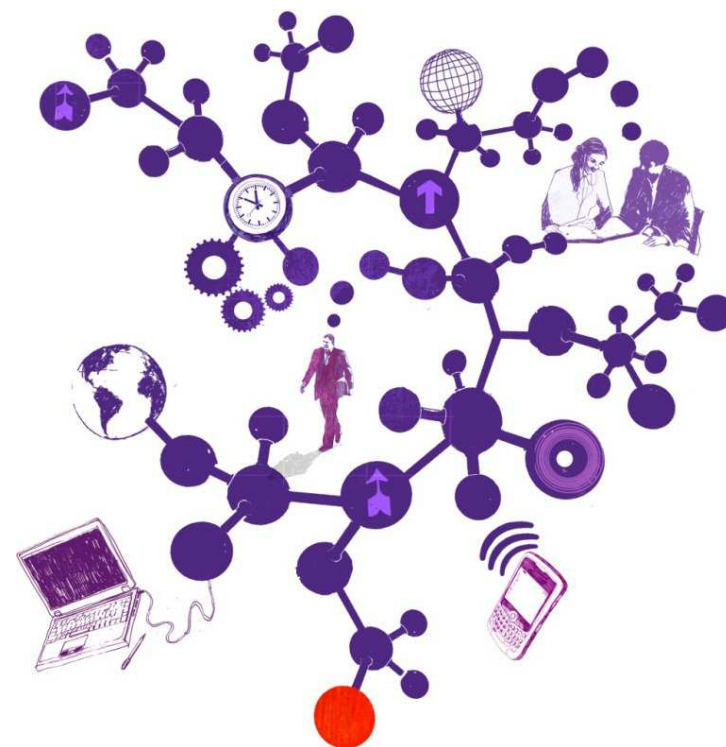
Year ended 31 March 2014

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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](http://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 Audit Manager.

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# Position at 7 November 2014

Work	Planned date	Complete	Comments
<p><b>2014/15 Accounts Audit Plan</b></p> <p>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>	24 February 2015	Not due	Initial planning work will be undertaken to enable the audit plan to be presented at the February 2015 Audit Committee.
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	February/March 2015	Not due	Our initial review of the Council's controls and our early substantive testing will be undertaken in February/March 2015. This work will be managed in tandem with our work for South Hams District Council. Minimising the disruption to the council's finance team.
<p><b>2014/15 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014/15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July 2015	Not due	The audit of the 2014/15 financial statements will be undertaken in July and August 2015 and reported to the September Audit Committee to meet the 30 September 2015 deadline.

## Position at 7 November 2014 (continued)

Work	Planned date	Complete	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises a review of whether the Council has:</p> <ul style="list-style-type: none"> <li>• <b>proper arrangements in place for securing financial resilience.</b> 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.</li> <li>• <b>proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b> The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</li> </ul>	February 2015 to September 2015	Not due	<p>An interim risk assessment will be made as part of the Audit planning in February 2015.</p> <p>The detailed work will continue through to September 2015, when we are required to give our VfM conclusion.</p>
<p><b>Other areas of work</b></p> <p><b>Certify the Council's WGA accounts</b></p> <p><b>Grant claims and certification.</b></p> <p>We anticipate that the only claim that will require certification for 2013/14 will be the Housing benefit and council tax subsidy.</p>	September 2015	Not due	Work will commence in September 2015
	June 2015 November 2015	Not due	Work will commence in June 2015 and be completed in November 2015

# Emerging issues and developments

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## Code changes – have your say

### Accounting and audit issues

At the end of July, CIPFA/LASAAC released the [2015/16 Code of Practice on Local Authority Accounting in the United Kingdom](#) (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (ie levies imposed by governments)
- changes to UK GAAP particularly relating to Heritage Assets
- other minor and drafting amendments.

The consultation closed on Friday 10 October 2014. The final version of the updated code will be issued shortly.

CIPFA/LASAAC have also launched a second stage consultation on [simplifying and streamlining the presentation of local authority financial statements](#). This will be issued before the preparation of the 2014/15 financial statements

# Emerging issues and developments

## CIPFA LAAP updates

### Accounting and audit issues

CIPFA have issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

### Issue for consideration

- Has your Head of Finance and audit reviewed the guidance and assessed the potential impact for your authority?

### Management comment

The Council will assess the impact of the 2015/16 Code of Practice on Local Authority Accounting as part of its standard timetable for Accounts preparation. The Council will also attend the various seminars on Final Accounts preparation which are run by Grant Thornton and FAN (Finance Advisory Network).

The Council undertook a major exercise on streamlining its Accounts for 2013/14 and any further streamlining from the CIPFA publication will be made.

LAAP Bulletin 99 - Local Authority Reserves and Balances - The LAAP Bulletin maintains that the many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. The Chief Finance Officer (CFO) may choose to express advice on the level of balances in cash and or as a percentage of budget (to aid understanding). The level of Reserves is reported on as part of the Budget reports to the Resources Committee and Council.



# Emerging issues and developments

## Where Growth Happens

### Grant Thornton

Our national report 'Where Growth Happens' is available at: [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/Where-growth-happens-the-high-growth-index-of-places.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/Where-growth-happens-the-high-growth-index-of-places.pdf)

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEAs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assesses the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

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

## New routes to housing development

### Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Copies of our good practice paper are available from your engagement lead or audit manager.

# Emerging issues and developments

## Anti - fraud and corruption update

### Grant Thornton

Key current issues include:

**Single Fraud Investigation Service (SFIS)** - The SFIS will bring together all investigative capacity in relation to benefits and tax credits under the control of the Department of Work and Pensions. However a number of local authorities have expressed concern that such a transfer will cause them to lose the capacity to readily investigate other issues such as employee fraud and corruption allegations.

**Corruption risk** - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that Audit Committees were unable to fulfil the function of reducing risks in many authorities.

**Non-benefits fraud** - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London boroughs, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

Our Forensic Investigation Services provide a range of services to local authorities including fraud prevention and detection. If you are interested in a further discussion on these areas please contact your audit manager.

# Emerging issues and developments

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## Right to report

### Local government guidance

The Local Government Minister signed a signed a Parliamentary order on 6 August 2014 allowing the press and public to film and digitally report from all public meetings of local government bodies. The new rules will apply to all public meetings, including town and parish councils and fire and rescue authorities. The Local Government Secretary, Eric Pickles, said:

*"Half a century ago, Margaret Thatcher championed a new law to allow the press to make written reports of council meetings. We have updated her analogue law for a digital age... This will change the way people see local government, and allow them to view close up the good work that councillors do"*

### Issue for consideration

- Have members considered the implications of the Parliamentary order for conducting Council meetings and facilitating public and media access thereto?

### Management comment

A report from the Democratic Services Manager was considered by Council on 7 October 2014. This work is being led by the Monitoring Officer and the Head of Corporate Services.

## Auditing Parish Councils

### Local government guidance

On 17 July 2014 the Audit Commission wrote to the Department for Communities and Local Government (DCLG) to express its concerns about the complexity of the government's new arrangements for parish council audits. Responding to DCLG's consultation on local audit regulations, the Commission suggests they will place a much greater burden on parish councils and their clerks than the government intends.

Currently all circa 10,000 parish Councillors have an Audit Commission appointed auditor. Post Audit Commission closure, scheduled for March 2015, new arrangements are due to come into place from 2017. Under the new arrangements the default option for all parishes will be to appoint their own auditors, with fees set by the market, although:

- auditors at parishes below a certain size, and subject to other prescribed conditions, will not carry out work unless members of the public ask questions or make objections – instead parishes in this category will have to publish specified information on their own website or the website of their district council;
- if a sector led body comes forward, and is accepted by the government, parishes can opt for this body to appoint their auditors for them.

The Audit Commission's Chairman, Jeremy Newman said that

- “we need to find a way to overcome some fundamental practical problems about how smaller local authorities, such as parish councils, should be held to account;
- the government wants high quality and cost-effective assurance that promotes transparency. It is trying to reduce the burden on authorities, but its proposals will do the opposite. The government needs to either keep the current assurance arrangements in place, or accept that the small spending levels of these bodies, coupled with their closeness to their communities, means that external audit is disproportionate.”

# Emerging issues and developments

## Managing council property assets

### Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

*"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."*

### Issue for consideration

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?

### Management comment

On 10 December 2013 the Resources Committee received a report from the estates manager on the Strategic Asset Review (SAR). An update on the SAR will be reported to the Resources Committee in December as part of the Capital Programme Monitoring report.

# Emerging issues and developments

## The National Fraud Initiative

### Local government guidance

On 12 June 2014 the Audit Commission released its national report, [The National Fraud Initiative \(NFI\): National Report \(June 2014\)](#) highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

*"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".*

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .

### Issue for consideration

- Are members satisfied that the Council's support for the NFI's data matching exercise is adequate and that local data matches are being properly investigated to identify potentially fraudulent activity?

### Management comment

It is proposed that this is a separate item on the Audit Committee at its meeting on 24 February 2015 so that Members can receive a report on the detail of the data matching exercise.



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