

# Taunton Deane Borough Council

## Corporate Governance Committee – 10 March 2014

### Grant Thornton – External Audit Update Report

#### Report of the Director – Operations (Shirlene Adam)

(This matter is the responsibility of the Leader of the Council, Cllr John Williams)

#### 1. Executive Summary

This report:-

- Updates the Committee on the work of the external auditor – Grant Thornton, and
- Provides a useful update on emerging national issues that may have relevance to this Council.

This form of general update will now be shared with Corporate Governance Committee on a regular basis.

#### 2. Background

- 2.1 This report provides a useful update on progress against each piece of “regular” work carried out by our external auditors. Additionally, the update report shares headlines on some national issues that will have an impact on this Council. This will help Councillors ensure they are sighted on “big issues” and if appropriate, engage with the appropriate officers to progress.

#### 2. Financial Issues / Comments

Update report only.

#### 3. Legal Comments

There are no legal implications from this report.

#### 4. Links to Corporate Aims

No direct implications.

#### 5. Environmental and Community Safety Implications

No direct implications.

**6. Equalities Impact**

No implications based on this update report.

**7. Risk Management**

Any risks identified will feed in to the corporate risk management process.

**8. Partnership Implications**

No implications based on this update report.

**9. Recommendation**

Members are requested to note the update report from Grant Thornton.

**Contact:** Shirlene Adam  
Director of Operations  
01823 356310  
[s.adam@tauntondeane.gov.uk](mailto:s.adam@tauntondeane.gov.uk)

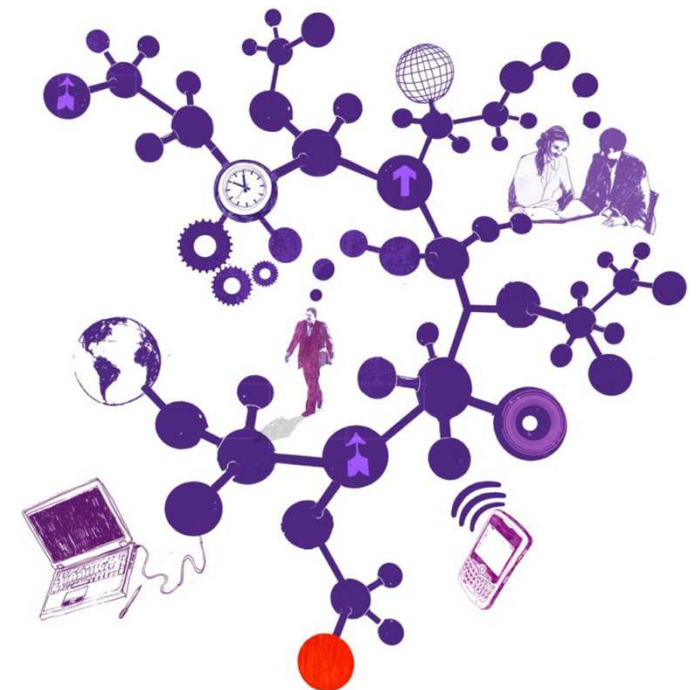
# Corporate Governance Committee Update for Taunton Deane Borough Council

**Year ended 31 March 2014**

10 March 2014

**Peter Barber**  
Associate Director  
T +44 (0)117 305 7897  
E [peter.a.barber@uk.gt.com](mailto:peter.a.barber@uk.gt.com)

**Peter Lappin**  
Senior Manager  
T +44 (0)117 305 7865  
E [peter.lappin@uk.gt.com](mailto:peter.lappin@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.

---

# Contents

<b>Section</b>	<b>Page</b>
Introduction	4
Progress at 20 February 2014	5
Emerging issues and developments	
Local government guidance	7
Grant Thornton	9
Accounting and audit issues	12

---

# Introduction

This paper provides the Corporate Governance 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 district council in respect of these emerging issues which the Committee may wish to consider.

Members of the Corporate Governance 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. Here you can download copies of our publications – '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 Audit Manager.

**Peter Barber**  
**Engagement Lead**  
**T 0117 305 7897**  
**E [peter.a.barber@uk.gt.com](mailto:peter.a.barber@uk.gt.com)**

**Peter Lappin**  
**Audit Manager**  
**T 0117 305 7865**  
**E [peter.lappin@uk.gt.com](mailto:peter.lappin@uk.gt.com)**

## Progress at 20 February 2014

Work	Planned date	Complete?	Comments
<p><b>2012-13 certification work</b> We audit those grants and returns that require certification in accordance with Audit Commission guidance and department deadlines.</p>	By 30 November 2013	Yes	We issued a certification report in December 2013 and it is included in this Committee's agenda.
<p><b>2013-14 Accounts Audit Plan</b> 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 2013-14 financial statements.</p>	March 2014	In progress	<p>Our audit plan sets out our approach for the final accounts visit in the summer of 2014.</p> <p>The plan is informed by our interim accounts audit which is yet to be completed.</p>
<p><b>Interim accounts audit</b> 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>	January to March 2014	In progress	We have updated our understanding of the Council's financial systems and we are undertaking walk-through tests.

## Progress at 20 February 2014

Work	Planned date	Complete?	Comments
<p><b>2013-14 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July to September 2013	Not yet due	None
<p><b>2013-14 Value for Money (VfM) conclusion</b> The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• a detailed review of financial resilience</li> <li>• a review of arrangements for securing economy and efficiency</li> <li>• a follow up of recommendations made last year.</li> </ul>	Spring Summer 2014	Not yet due	None
<p><b>Other activities</b></p> <ul style="list-style-type: none"> <li>• Accounts workshop in the South West to help local authorities in the preparation of the financial statements for 2013/14.</li> </ul>	February 2014	Not yet due	The Council's finance team has been invited to a choice of workshops in Exeter and Bristol.



---

# Councils must continue to adapt to meet the needs of local people

## Local government guidance

### Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

---

# 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.

---

# 79% of Councils anticipate Tipping Point soon

## Grant Thornton

### 2016 tipping point? Challenging the current

This report [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/LG-Financial-Resilience-2016-tipping-point.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf) is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

---

# Alternative Delivery Models – are you making the most of them?

## Grant Thornton

### Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

---

# Welfare reforms – what you think of it so far?

## Grant Thornton

### Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report, [Reaping the benefits](#) focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

# Estimating the impact of business rate appeals

## Accounting and audit issues

### Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

**[grant.thornton.co.uk](http://grant.thornton.co.uk)**