

Taunton Deane Borough Council

Corporate Governance Committee 8 December 2014

External Audit (Grant Thornton) Update Report

Report of the Assistant Director – Corporate Services (Richard Sealy)

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

1. Executive Summary

This is a regular progress update report for Members by our external auditors, Grant Thornton, in relation to their work for the 2013/14 financial year and also provides an update in relation to emerging national issues.

2. Background

- 2.1 Each year our external auditor is required to carry out “set” audit work and this report provides a useful progress update on this work.
- 2.2 Additionally, the report shares headlines on some national issues that may have an impact upon the Council.

3. Audit Update

- 3.1 The audit update report is attached see appendix one.

4. Finance Comments

- 4.1 This is an update report only.

5. Legal Comments

- 5.1 There are no legal implications from this report.

6. Links to Corporate Aims

- 6.1 No direct implications.

7. Environmental Implications

- 7.1 No direct implications.

8. Community Safety Implications

- 8.1 No direct implications.

9. Equalities Impact

9.1 No direct implications.

10. Risk Management

10.1 No direct implications.

11. Partnership Implications

11.1 No direct implications.

12. Recommendations

Members are requested to note the update report.

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Appendix 1 – Grant Thornton External Audit – Audit Update



Corporate Governance Committee Update for Taunton Deane Borough Council

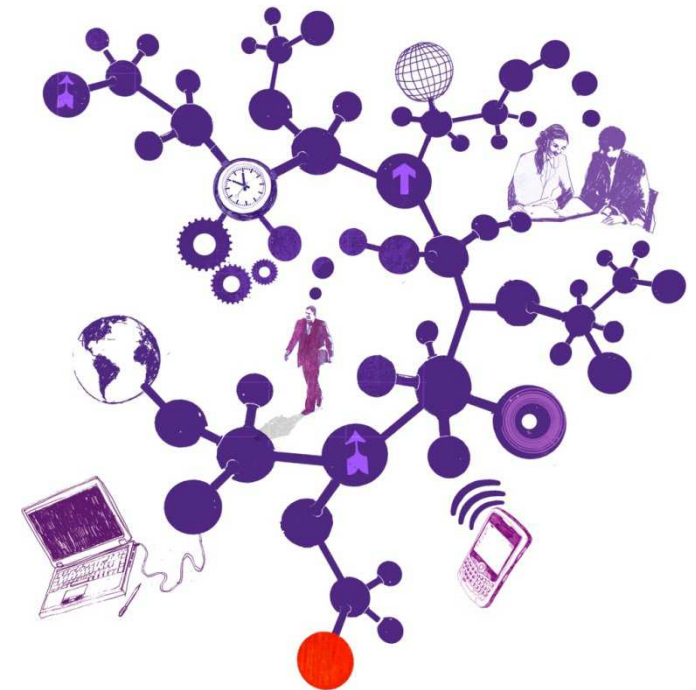
Year ended 31 March 2014

14 November 2014

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Introduction

This paper provides the Audit and 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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance 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:

- 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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Progress at 14 November 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 on the Council's 2013-14 financial statements.</p>	March 2014	Yes	The audit plan was a separate item on the Corporate Governance Committee agenda on 19 May 2014.
<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; and • initial risk assessment to support the Value for Money conclusion. 	March 2014	Yes	Our interim audit work has been completed and we summarised the findings in the audit plan referred to above.
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements; • proposed opinion on the Council's accounts; and • proposed Value for Money conclusion. 	July – September 2014	Yes	We completed the audit of the accounts and gave unqualified opinion on the Council's accounts as well as Value for Money conclusion. We discussed our audit findings report as a separate item at the Corporate Governance Committee meeting on 22 September 2014.

Progress at 14 November 2014 (continued)

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • a review of securing financial resilience; • a review of arrangements for securing economy, efficiency and effectiveness; and • a follow up of recommendations made last year. 	July – September 2014	Yes	Unqualified opinion was provided to the Council and our audit findings report discussed above included details about our conclusion.
<p>2013-14 Certification work The claims and returns we are certifying this year are:</p> <ul style="list-style-type: none"> • housing benefits scheme claim; and • pooling of housing capital receipts return. 	September – November 2014	Ongoing	<p>Work is underway regarding the housing benefits scheme claim.</p> <p>The pooling of housing capital receipts return has been certified without amendment or qualification as disclosed in the annual audit letter reported at the 8 December 2014 Corporate Governance Committee meeting.</p>

Code changes

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 which closed on Friday 10 October 2014. 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; and
- other minor and drafting amendments.

CIPFA/LASAAC also launched a second stage consultation on simplifying and streamlining the presentation of local authority financial statements which closed on Friday 19 September 2014.

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.

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.

Anti - fraud and corruption update

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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 engagement lead.

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; and
- 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."

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.



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