

Audit & Governance Committee Update for Lancashire County Council

Year ended 31 March 2014

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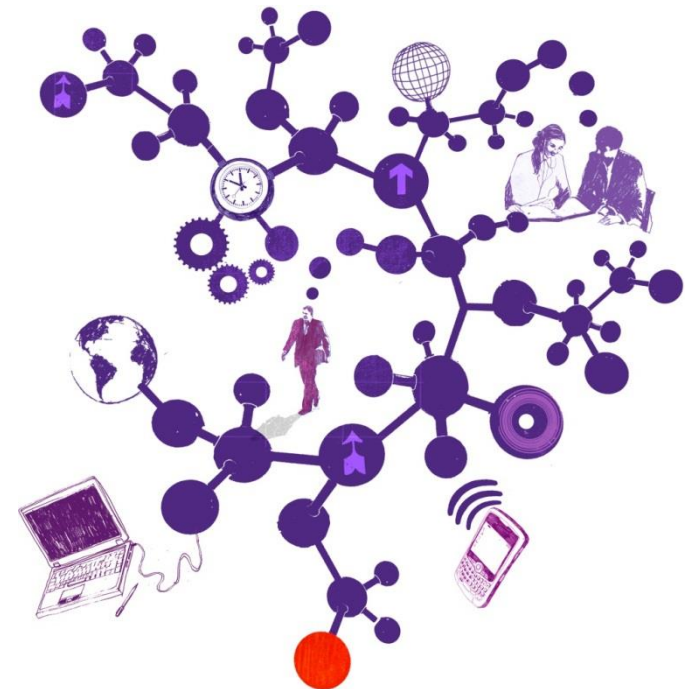
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Introduction

This paper provides the Audit & 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 County Council
- includes a number of challenge questions in respect of these emerging issues which the Audit & Governance Committee may wish to consider.

Members of the Audit & 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. 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.

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Progress at January 2014

Work	Planned date	Complete?	Comments
<p>2012-13 Grant claims We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place six to nine months after the end of the financial year.</p> <p>We have certified one return for the financial year 2012/13, the Teacher's Pension return relating to expenditure of £71.47million</p>	<p>June – December 2013</p>	<p>Yes</p>	<p>There are no issues arising from our certification work on the Teacher's Pension return which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements in place to compile an accurate and timely claim for audit certification.</p> <p>The Audit Commission set an indicative scale fee for grant claim certification. This fee was based on the 2010/11 certification fees for the Council. The indicative scale fee for the Council for 2012/13 is £3,700. However, we have agreed a "fee variation" to reduce this fee to £1,190. This reflects the fact that the indicative fee anticipated the Schools Centred Initial Teacher Training (SCITT) return would be subject to audit under the Audit Commission's certification regime. This return has since been withdrawn from the regime.</p> <p>The Council is still required by the grant paying department, the National College for Teaching and Leadership (NCTL) to have this return certified, albeit outside the Audit Commission regime. The Council has asked that we undertake this. We are now liaising with NCTL to agree the scope of the work required.</p>

Progress at January 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the County Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	April 2014	Underway	Our planning for the 2013-14 audit has commenced. We plan to issue the detailed Audit Plan in April 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 • initial Value for Money planning. 	January to April 2014	On track	We have commenced our planning for 2013-14 and expect to complete our interim accounts audit by the end of April 2014.
<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 • proposed Value for Money conclusion. 	July to September 2014		<p>We will again be holding annual accounts closedown workshops, jointly with CIPFA Finance Advisory Network (FAN). Workshops are being held on various dates during February and March 2014, and invitations have been sent to officers.</p> <p>We will prepare an Audit Findings Report and present this to the Audit and Governance Committee (scheduled for 29 September 2014) prior to issuing our audit report.</p>

Progress at January 2014

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of work to inform the 2013/14 VfM conclusion requires us to assess whether the Council has proper arrangements:</p> <ul style="list-style-type: none"> • in place for securing financial resilience; • for challenging how it secures economy, efficiency and effectiveness <p>In planning work to support the conclusion on arrangements to secure VfM we will have regard to relevant risk indicators across these two criteria in considering the extent and focus of our local VfM work.</p>	<p>January to September 2014</p>		<p>We will update our risk assessment and set out a planned programme of VfM work to inform our 2013-14 conclusion.</p> <p>We will report our detailed findings within our Audit Findings Report in September 2014.</p>
<p>Annual Audit Letter</p> <p>We are required by October 2014 to summarise our work performed at the Council, including:</p> <ul style="list-style-type: none"> • Accounts audit • VfM audit work • Grant claims certification. 	<p>October 2014</p>		
<p>2013-14 Grant claims report</p> <p>Our review of the Council's 2013-14 grant claims will take place during the period June to December 2014.</p>	<p>June to December 2014</p>		<p>For the Council only one return, the Teacher's Pension return, remains within the Audit Commission's certification regime for 2013/14.</p>

The 2012/13 Audit

We issued an unqualified audit report in respect of the Council's accounts for the year ended 31 March 2013 in September 2013. We also issued an unqualified conclusion in respect of the Council's arrangements for securing value for money.

However, in doing so, we recognised that weaknesses in the overall framework had recently been identified by the Council in relation to procurement and some aspects of good governance. The Council is investigating these issues further .

Pending the conclusion of this work we are unable to issue our certificate for 2012/13 confirming completion of our audit in accordance with the Code of Practice. We continue to monitor the Council's response and progress in following up the issues. We are receiving full cooperation from officers as we do so.

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Challenge questions:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council's financial objectives and complying with legal requirements?
- Has your County Treasurer reviewed the council's charging policy and levels of income against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The [Integration Transformation Fund statement](#), signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two ear plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Challenge question:

- How is your Council planning to work with its partners to formulate joint plans and obtain funding?

Emerging issues and developments

Grant Thornton

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Council estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Challenge questions:

- Does your Council have a properly functioning procurement process, where duties are clearly segregated?
- Does your Council maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Grant Thornton

Local Government Pensions Governance Review

This report presents the findings of our first review of [Local Government pension schemes' governance](#). Based on comprehensive research with pension fund senior officers and supported by insights from pension fund auditors, our report shows that there is a wide variety of practice across the UK:

- 70% of funds operate with a single pension committee, but those that use sub-groups are able to act more quickly, with a greater focus on the strategic management of the fund, while ensuring the important aspects of operation are given proper consideration
- only 25% of funds provide their pension committee with regular (more than once a year) reports on key risks affecting the fund
- only 22% of funds are implementing action plans resulting from the CIPFAs knowledge and skills framework
- 60% of pension funds benchmark their costs and have reduced them in recent years, but reporting to pension committees on administration costs and savings is under-developed
- there are lessons to be learnt from funds that have worked collaboratively to reduce costs, share expertise and improve services.

The report also provides an outline of governance and reporting best practice and an update on the significant changes to Local Government pension schemes.

Challenge questions:

As the administering authority for the Lancashire County Local Government Pension Scheme:

- have you reviewed the report and used the questions posed in the report to help assess the strength of your current governance arrangements?
- what action do you plan to take to improve governance arrangements?

If you have any queries on governance, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

Challenge questions:

- How are you planning to improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of your Council?
- Has your County Treasurer carried out a de-cluttering exercise to ensure that disclosures are relevant, material and up to date?

Emerging issues and developments

Accounting and audit issues

Consultation on local authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the local authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Challenge question:

- Has your County Treasurer reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on local authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Challenge questions

- Are both your County Treasurer and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your County Treasurer reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your Council complies with other aspects of the Code requirements?
- Where your Council is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?



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