

# Audit and Governance Committee Update for Copeland Borough Council

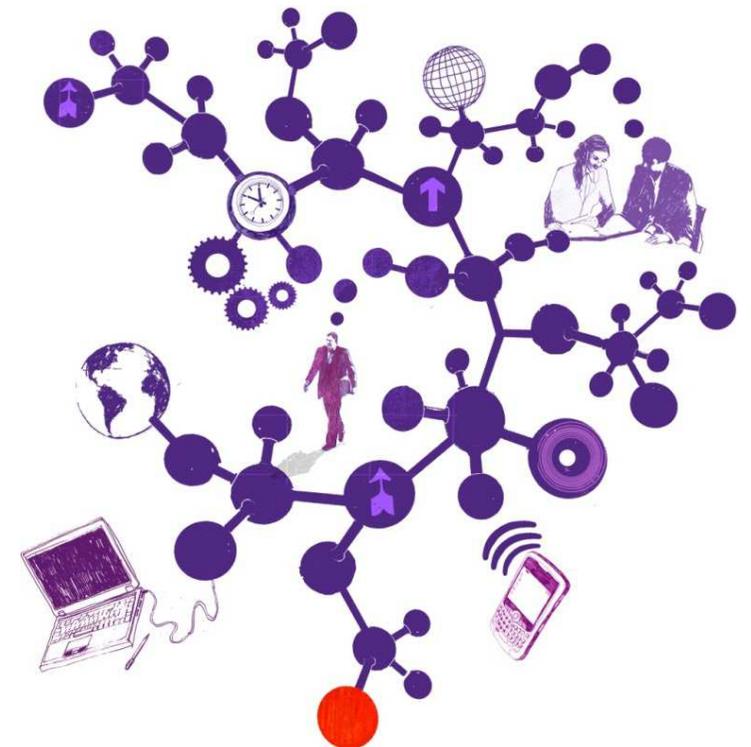
**Year ended 31 March 2015**

March 2015

**Jackie Bellard**  
Director  
T 061 234 6394  
E [jackie.bellard@uk.gt.com](mailto:jackie.bellard@uk.gt.com)

**Richard McGahon**  
Senior Manager  
T 0141 223 0889  
E [richard.a.mcghon@uk.gt.com](mailto:richard.a.mcghon@uk.gt.com)

**Joanne Ashbridge**  
Auditor In Charge  
T 0141 223 0894  
E [joanne.ashbridge@uk.gt.com](mailto:joanne.ashbridge@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 March 2015           | 5           |
| Emerging issues and developments |             |
| Grant Thornton                   | 7           |
| Local government issues          | 9           |
| Accounting and audit issues      | 10          |

# 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](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:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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.

Jackie Bellard, Engagement Lead      T 0161 234 6394    M 07880 456195    [jackie.bellard@uk.gt.com](mailto:jackie.bellard@uk.gt.com)  
Richard McGahon, Senior Manager    T 0141 223 0889    M 07880 456156    [richard.a.mcgahon@uk.gt.com](mailto:richard.a.mcgahon@uk.gt.com)

# Progress at March 2015

| Work  | Planned date             | Complete? | Comments   |
|---|--------------------------|-----------|--|
| <p><b>2014-15 Accounts Audit Plan</b><br/>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>   | April 2015               | Yes       | The Audit Plan includes the results of the interim visit to date. The Plan will be presented to the 14 April 2015 Audit and Governance Committee. This report provides an update on current progress, highlights emerging issues and gives the Audit and Governance Committee an understanding of the audit process at Grant Thornton.   |
| <p><b>Interim accounts audit</b><br/>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council 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 April 2015    | Partial   | <p>Work on the interim audit is scheduled to be completed by end of April 2015. We have discussed with Officers the key financial systems for which we need to gain an updated understanding for 2014/15.</p> <ul style="list-style-type: none"> <li>• We have met with senior finance staff and internal audit to assess the internal control environment.</li> <li>• An Information Technology risk assessment will be undertaken on 27 April 2015.</li> <li>• We will complete our initial risk assessments for our Value for Money Conclusion</li> </ul> |
| <p><b>2014-15 final accounts audit</b><br/>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>   | August to September 2015 | No        | We will discuss with the Interim Financial Services Manager and other Senior finance staff key accounting and audit issues to assist the smooth running of the final accounts audit.   |

## Progress at March 2015 (Cont'd)

| Work  | Planned date          | Complete? | Comments   |
|---|-----------------------|-----------|--|
| <p><b>Value for Money (VfM) conclusion</b><br/>The scope of our work to inform the 2014/15 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• Securing Financial Resilience               <ul style="list-style-type: none"> <li>- Key indicators of financial performance</li> <li>- Strategic financial planning</li> <li>- Financial governance</li> <li>- Financial control</li> </ul> </li> <li>• Securing Economy, Efficiency and Effectiveness               <ul style="list-style-type: none"> <li>- Prioritising Resources</li> <li>- Improving Efficiency and Productivity</li> </ul> </li> </ul> | By end of August 2015 | No        | <p>There are no significant changes in approach to the VfM conclusion work from that carried out last year.</p> <p>In February 2015 we provided officers with a listing of the evidence required to complete our VfM Conclusion work.</p> <p>We are currently undertaking a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work to address any issues raised within the risk assessment.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.</p> |
| <p><b>Other activity undertaken</b><br/>We provided a Cumbria wide early accounts closedown workshop to support the Council.</p>  | 6 March 2015          | Yes       | This was the first of a series of workshops we are facilitating to support our Cumbria local authority clients to achieve an early closedown of the accounts by the 2017/18 deadline.  |

# All Aboard? - Local Government Governance Review 2015

## Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

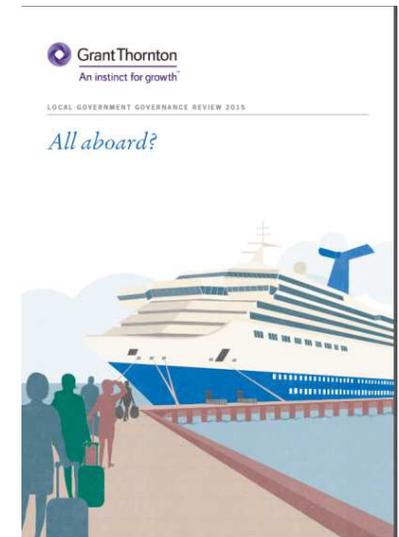
**Governance of the organisation** – the main area of concern highlighted in this year's governance survey  
Is the level of dissatisfaction with the scrutiny process.

**Governance in working with others** – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

**Governance of stakeholder relations** – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

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



# Stronger futures: development of the LGPS

## Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

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

 Grant Thornton

Stronger futures:  
development of the LGPS

Improving governance in local government pension schemes  
February 2015



# Independent Commission into Local Government Finance

## Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace.

Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

# Provision for Business Rates Appeals

## Accounting and audit issues

### Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

### Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

### Issues to consider

- Has your finance department got arrangements in place for the estimation of appeals to be charged against the provision?

# Early payment of pension contributions

## Accounting and audit issues

During 2014/15 some local authorities paid pension fund deficit contributions covering three years (2014/15 to 2016/17). By doing this the local authority benefits from a discount on the total amount payable resulting in a lower overall charge.

Due to the amounts involved, some authorities are seeking to spread the impact of the payment over the three-year period. In doing so, they must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year as defined by regulation 30 of [The Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003](#).

We expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. The accounting judgements and treatment should reflect the advice received and should be documented accordingly.

Where an authority has received legal advice that the up-front payment can be recognised in the general fund over three years, based on our understanding of the arrangement we would expect the total amount to be reflected in the pension fund liability. This means that the pension reserve will not equal the pension liability. We expect the background to the transactions and the reason for the difference to be disclosed in a note to the accounts.

# Inclusion of overtime in the calculation of holiday pay

## Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

## Issue to consider

Has the Council taken legal advice and assessed if a provision is required in the 2014/15 accounts?

# Earlier closure and audit of accounts

## Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July. In early 2016 we will share our findings in a national report on how this has been achieved.

We held a Cumbria wide early closedown workshop on 6 March 2015 to support the Council in starting the process of bringing the closedown process forward. This was the first in a series of workshops that we will provide over the next two years.



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

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