

# Redditch Borough Council

## Audit, Governance and Standards

### Committee Update

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**Year ended 31 March 2016**

January 2016

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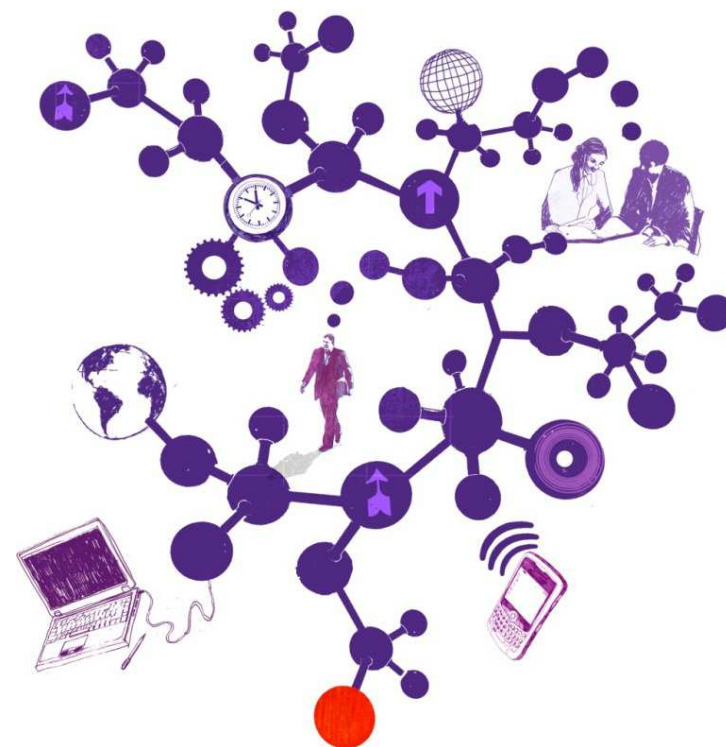
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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# Contents

Section	Page
Introduction	
Completion of the 2014/15 audit	6
Progress at January 2016	7
Emerging issues and developments	
Grant Thornton	11
Local government issues	15

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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:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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.

# Progress at January 2016

Work	Planned date	Complete?	Comments
<b>Completion of 2014/15 audit work</b>			
opinion on 2014/15 accounts	September 2015	Y	<p>The opinion on the 2014/15 accounts was issued on 16 December 2015, some time after the statutory deadline. The annual audit letter presented to the January audit committee provides further detail on the reasons for the delay. An updated AFR was presented to the chair of the audit committee prior to the accounts being approved by him, under the delegated arrangements agreed at the September audit committee.</p> <p>Statutory S11 recommendations were issued reflecting our concerns. The council is required to publish the response to our recommendations. Progress should be reported routinely to the committee and also to the chair of the audit committee between committee meetings.</p>
value for money conclusion	September 2015	Y	<p>The value for money conclusion was issued on 16 December. The opinion was qualified due to the council not having adequate arrangements in place to demonstrate financial resilience.</p>

# Progress at January 2016

Work	Planned date	Complete?	Comments
<b>Completion of 2014/15 audit work</b>			
Housing benefits subsidy claim audit	November 2015	Y	<p>We have recently certified the Council's housing subsidy claim. This was certified on 18 December, after the departmental deadline of 30 November. More detail is contained in the separate Certification Report also presented to the January Committee.</p> <p>The audit approach requires additional testing to be undertaken where errors are identified in the initial sample. A number of errors were identified in the initial sample and in the subsequent additional testing. The impact of these errors has been extrapolated and reported to the Department of Work and Pensions in the qualification letter. It is likely that the department may request further information from you as a result of the qualification letter and possibly require further external audit work. It is also possible that some subsidy will be withheld as a result of the qualification letter. Due to the amount of additional audit work, we will be requesting additional fees.</p>

# Progress at January 2016

2015-16 Work	Planned date	Complete?	Comments
<p><b>2015-16 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 Council's 2015-16 financial statements.</p>	April 2015	Y	<p>The fee letter for 2015/16 was issued in April 2015. The scale fee for the year is set at £57,960, which compares to the scale audit fee of £77,280 for 2014/15. The reduction in scale fees has been enabled by the procurement exercises run by the Audit Commission across both local government and health sectors.</p> <p>We anticipate a grant fee of £10,529 for audit of your housing subsidy claim.</p> <p>The fee assumes that the accounts will be prepared on time, supported by good standard working papers and staff available as agreed. If the agreed standards are not met we will discuss with you a variation to the audit fee.</p> <p>The Director of Finance has in place an action plan to address our concerns raised from our audit in 2014/15. We will consider progress against those plans as part of our interim audit work in Spring 2016.</p>
<p><b>Section 11 Recommendations</b></p> <p>As referred to on the previous page, we issued Section 11 recommendations due to our significant concerns.</p> <p>We will consider the Council's response to our recommendations and progress on implementation of the action plan</p>	On-going	N	<p>Officers will be reporting throughout the year progress against these recommendations. We will also consider progress as part of our on-going reporting to the committee.</p>

# Progress at January 2016

Work	Planned date	Complete?	Comments
<b>Interim accounts audit</b> Our interim fieldwork visit includes: <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> <li>• Review of progress against S15 recommendations</li> </ul>	January and February 2016	N	<p>We plan to undertake our interim audit in January and February 2016. We are also planning to undertake a second interim where we will aim to bring forward some of our final accounts testing.</p> <p>The findings from the interim work will be included in our audit plan which will be reported to the April 2016 committee. The report will include detail of risks that we will address as part of final accounts visit and detailed value for money work.</p>
<b>2015-16 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July and August 2016	No	<p>We plan to start our final accounts audit in July 2016, completing the field work in August 2016, and bringing our Audit Findings Report to the September Audit, Governance and standards committee in September. The accounts will be audited and approved by Committee by the statutory deadline.</p> <p>The report will also contain our Value for Money conclusion.</p>



# Progress at January 2016

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion: <i>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</i></p> <p>To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties.</li> </ul> <p>We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p>	January to August 2016	No	<p>The guidance and supporting information includes:</p> <ul style="list-style-type: none"> <li>• the legal and professional framework;</li> <li>• definitions of what constitute 'proper arrangements';</li> <li>• guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified;</li> <li>• evaluation criteria to be applied;</li> <li>• reporting requirements;</li> <li>• CCG specific guidance.</li> </ul> <p>The guidance is available at <a href="https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/">https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</a></p> <p>Now that the finalised auditor guidance is available, we will carry out an initial risk assessment to determine our approach and report this in our Audit Plan.</p> <p>Our work will be reported in the Audit Findings Report presented to the September meeting of the Audit Committee.</p>

# Progress at January 2016

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Work	Planned date	Complete?	Comments
<b>Other activity undertaken</b> Housing benefits subsidy claim audit  We attended the September Hereford and Worcester Treasurers group presenting our devolution report. We will be attending the February meeting of that group.  In September we ran an event in Wychavon Council where all councillors in the county were invited covering governance issues.  We have issued to the Executive Director of Finance our 'Place Analytics' assessment.	November 2015	Y	We have recently certified the Council's housing subsidy claim. As in previous year's this claim was qualified, but was certified by the deadline.

# Making devolution work: A practical guide for local leaders

## Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

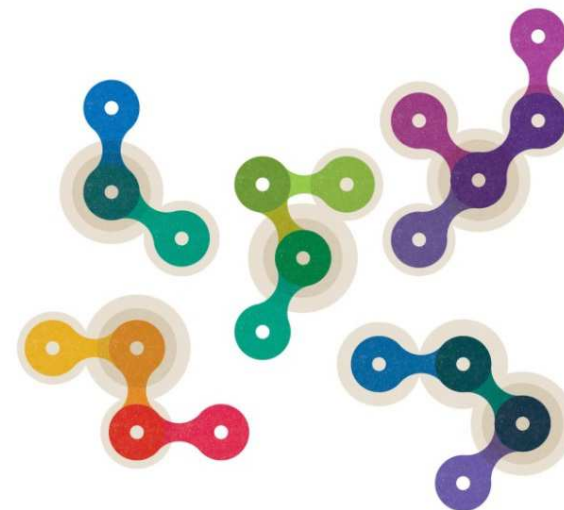
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

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



# Turning up the volume: The Business Location Index

## Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

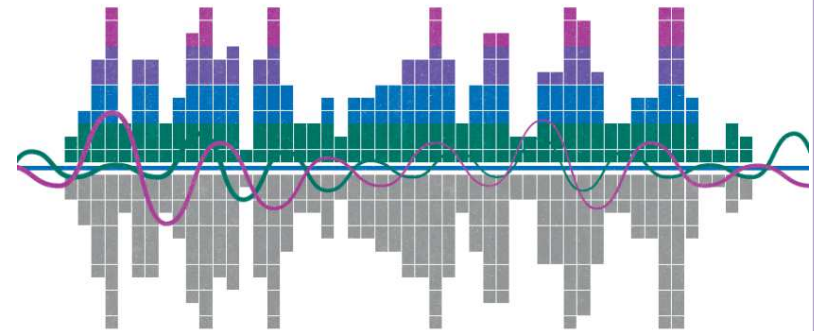
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

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



# Knowing the Ropes – Audit Committee Effectiveness Review

## Grant Thornton

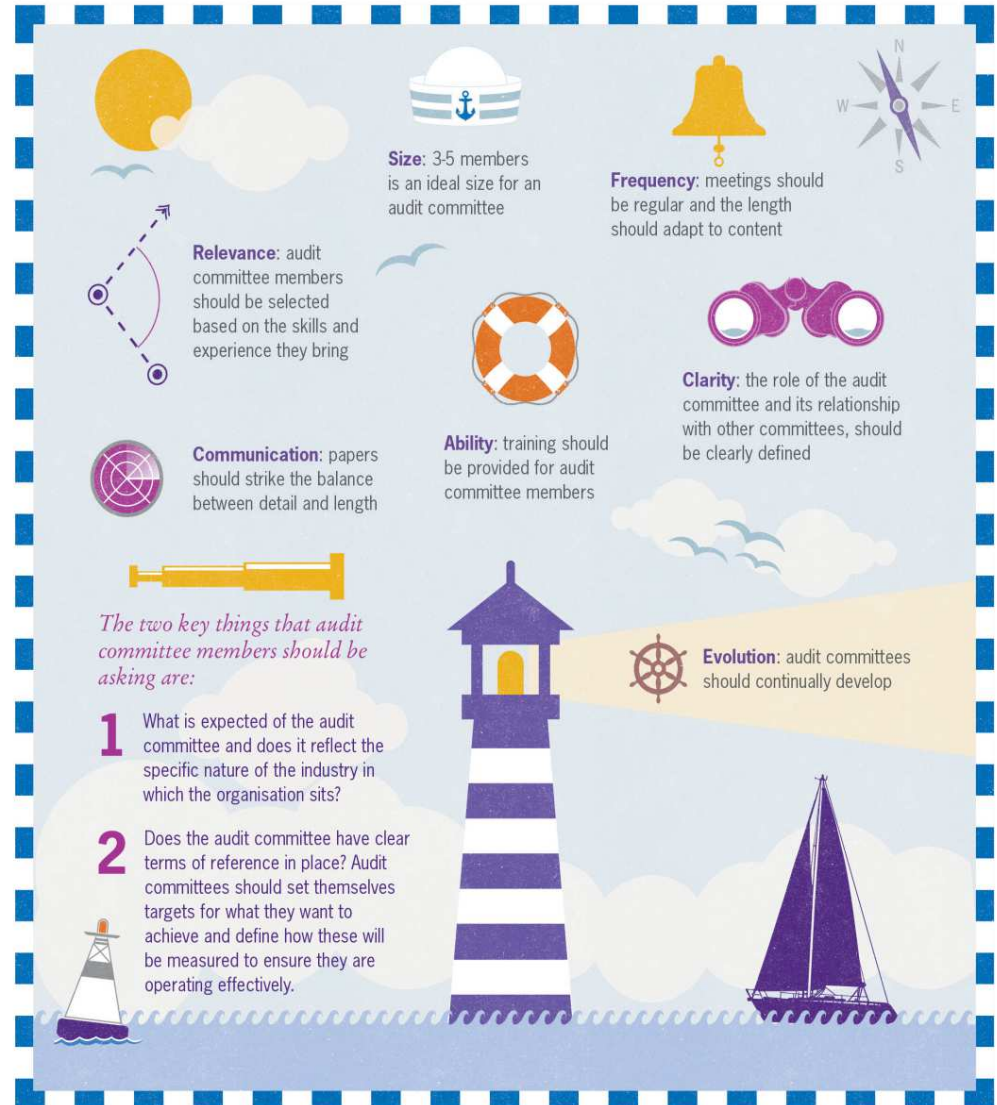
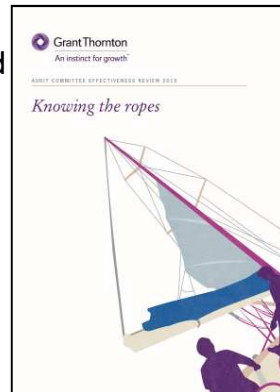
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.





# Reforging local government:

## Summary findings of financial health checks and governance reviews

### Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.



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# George Osborne sets out plans for local government to gain new powers and retain local taxes

## Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

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# Councils must deliver local plans for new homes by 2017

## Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.



# Improving efficiency of council tax collection

## Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closed on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

# Code of Audit Practice

## National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.

# Supporting members in governance

## Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager





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