

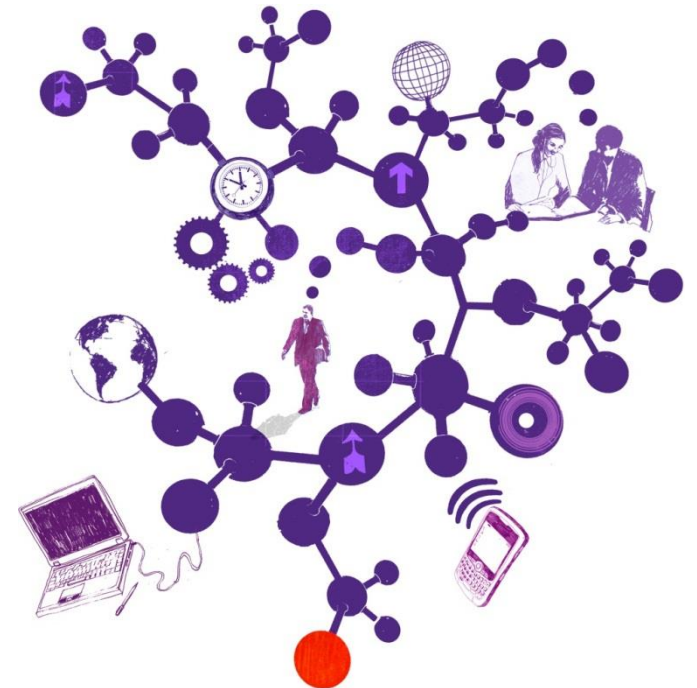
Audit and Governance Committee Update for Cheshire East Council

Year ended 31 March 2015

June 2015

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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 relevant to you.

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:

- Spreading their wings: local authority trading companies (LATC) report 2015
- Easing the burden - insight into the impact of welfare reform on local authorities
- 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 Manager.

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Progress at June 2015

Work	Planned date	Complete?	Comments
<p>2014-15 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 2014/15 financial statements.</p>	January – February 2015	Yes	We reported the audit plan to the March meeting of the Audit and Governance Committee.
<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 work on the Value for Money conclusion. 	January – March 2015	Yes	The results of interim audit work are set out at page 8.
<p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts. 	July – September 2015	Not yet due	<p>We have met with key finance staff to discuss the timetable and requirements for the audit of the financial statements.</p> <p>The draft accounts are due to be presented for audit at the end of June 2015.</p>

Progress at June 2015

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion considers whether the Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness 	By September 2015	Not yet due	<p>The work to assess the Council's arrangements in 2014/15 that result in the financial and service performance outcomes for the year, is underway.</p> <p>The final VfM conclusion is issued at the conclusion of the final accounts audit in September.</p>
<p>Other areas of work</p> <p>The only grant claim to be certified for 2014/15, under the existing Audit Commission framework is the housing benefits subsidy claim.</p>	By November 2015	Not yet due	The Council has prepared the draft claim for housing benefits subsidy and the initial audit testing is underway.
<p>Non audit services</p> <p>The Council commissioned our services to prepare and facilitate a workshop in relation to the development of Alternative Service Delivery Models with the corporate management team.</p>	March 2015	Yes	<p>This engagement is separate from our duties and responsibilities as your external auditor.</p> <p>We have considered and concluded that this non-audit service does not present a threat to the independence of our current and future audits of the financial statements or the VFM conclusion.</p>

Progress at June 2015

Work	Planned date	Complete?	Comments
<p>Supporting Members development - we provided our external audit perspective on the features of an effective audit committee.</p>	<p>September 2014 November 2014 June 2015</p>	<p>Yes</p>	
<p>Technical accounting developments:</p> <ul style="list-style-type: none"> We invited finance staff to attend our workshops on the changes on accounting for maintained schools and infrastructure assets. We shared our local authority briefing paper – on changes to the Code for 2014/15. We provided workshops in partnership with CIPFA FAN for finance staff covering the key issues affecting the preparation of the 2014/15 statement of accounts and the audit issues that need to be considered. Representatives from the corporate finance team and the Cheshire East companies attended our tax forum event which explored aspects of employment tax, VAT, corporate tax and stamp duty, focusing on the challenges relevant to local authorities and treatments under different types of alternative delivery models. 	<p>November 2014 November 2014 February 2015 May 2015</p>	<p>On-going</p>	<p>In addition to our events, we have met with your finance staff to discuss complex and emerging accounting issues.</p>

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below. Any further matters arising will be included in the Audit Findings Report at the conclusion of the audit.

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>As the Council uses Oracle which is an inherently complex financial system, our information systems specialists have completed a review of the controls operating in the Council's Oracle based IT systems, liaising with the Council's service provider – CoSocius.</p> <p>We also performed a high level review of the general IT control environment (as part of the overall review of the internal controls system) and followed up the issues that were raised last year.</p>	<p>The detailed work is complete and we have shared our findings with the Council. We will consider if the results identify any significant weakness that impact on our approach to the audit of the financial statements. Our findings will be included in the Audit Findings Report at the conclusion of the audit.</p> <p>The Council have appropriately implemented the recommendations made in the previous year.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We have liaised with finance staff to ensure that a complete and accurate schedule of all the journals transactions for the year is generated. We analyse this data using relevant parameters to focus on unusual transactions for audit testing.</p>	<p>Our detailed testing of journal transaction will be completed at the final accounts audit.</p>
Early substantive testing	<p>We have tested a sample of transactions in the following areas:</p> <ul style="list-style-type: none"> - employee remuneration payments for the period to December 2014 - operating expenses payments for the period to December 2014 - other revenue (this excludes council tax or non domestic rates) for the period to December 2014 - existence of property, plant and equipment. <p>We have reviewed a bank reconciliation completed during the year.</p> <p>We have discussed the proposed accounting entries and related disclosures derived from the PFI accounting models.</p> <p>We have considered the Council's initial assessment of the application of the new accounting standards for group accounts and discussed this with finance staff.</p>	<p>Our initial testing has identified no significant issues.</p> <p>We will extend our testing for the remainder of the year as part of the audit of the financial statements. The work will inform our approach to the audit of the Council's accounts and contribute to the assurance for material items.</p> <p>We also examine the bank reconciliation at the year end.</p> <p>We will examine the financial statements to ensure that these reflect the expected accounting entries and disclosures, supported by the accounting model.</p> <p>We will review the resultant accounting entries and the supporting evidence for group accounts as part of our audit of the financial statements.</p>

The Queen's Speech 2015 – what it means for local government

Local government issues

The Queen's Speech was presented to Parliament on 27th May 2015 and set out the new government's policies and proposed legislative programme for the next parliamentary session. There are a range of proposals impacting on local government, including:

- A Cities and Local Government Devolution Bill aimed at boosting growth and increasing local government productivity and efficiency. It will provide the legislative framework to deliver the Greater Manchester deal and other future deals. The provisions of the bill will be applied to specified combined authorities and their areas, led by an elected mayor.
- A Housing bill extending right to buy legislation to housing associations and requiring local authorities to dispose of high-value vacant council houses. This bill will also introduce measures to simplify and speed up the neighbourhood planning system other changes to housing and planning legislation to support housing growth.
- An Education and Adoption bill that aims to speed up intervention in failing schools and requires inadequate, and coasting schools to become academies. It is also planned to introduce regional adoption agencies, working across local authority boundaries to reduce delays in the adoption system.

Local Government New Burdens

Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5th June 2015.

In 2011, the government reaffirmed its commitment to the New Burdens Doctrine (the Doctrine). The Doctrine set out how the government would ensure that new requirements that increased local authorities' spending or reduced their income did not lead to excessive council tax increases. The Doctrine commits the government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.

The NAO report considers the new burdens regime, how it is managed and overseen and the DCLG's arrangements for new burdens assessments. It concludes that:

- government departments have embraced the new burdens Doctrine and the DCLG's guidance has promoted consistent assessment and encouraged consultation with local government on the impact of new requirements;
- however, the government is not sufficiently open about which new burdens are assessed or the outcomes of assessments; and
- the DCLG has not promoted post implementation reviews to ensure funding is adequate.

The NAO also concludes that the DCLG needs to use intelligence from the new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

English devolution – local solutions for a successful nation

Local government issues

The Local Government Association's (LGA) white paper on devolution includes a warning to the new government that the principle of cuts without reform could stifle growth and development and challenge the sustainability of vital local services. The paper sets out:

- Why devolution matters
- The principles to sustain devolution
- A road map to follow to help deliver reform
- Proposals that will strengthen accountability and governance in the new system

It states that:

Local government has done more than any other part of the public sector over the course of the last parliament to make the public finances more sustainable and managed to do so while protecting front line services. All evidence suggests that this cannot continue over the next five years without more radical reform. Given the continuing need to reduce the national deficit, only a reinvigorated agenda for reform, underpinned by sustainable funding for local services, will deliver the ambition of the new Government for our communities and national economy.

2014/15 Accounts

Accounting and audit issues

As part of our audit of local authorities' 2014/15 accounts we will be considering the following issues:

Accounting for schools – in particular the judgements made on whether to include non current assets for voluntary aided and voluntary controlled schools on the Council's balance sheet.

Group accounting standards – the application of the new accounting standards which affect how local authorities account for services delivered through other entities such as subsidiaries, associates and joint working with other partners.

Provisions for business rates appeals – how authorities have estimated their provision, taking into account the change in rules which limits how far the changes may be backdated.

Inclusion of overtime in the calculation of holiday pay – the Employment Appeal Tribunal reached a judgement on the extent to which overtime pay should be included in the calculation of holiday pay. We will consider how authorities have assessed the impact of this and where this is likely to be material, whether they include an appropriate provision in their 2014/15 accounts.

Welfare Reform Review: Easing the burden

Grant Thornton

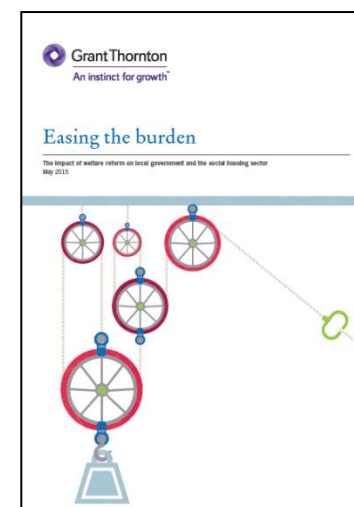
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

It focuses on the governance and management arrangements being put in place across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact. The Council contributed to the research for this review.

The key messages from this national review include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed have seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There has been limited movement to smaller properties as a result of the spare room subsidy and benefit cap reforms,
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.
- Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP, hardship funding and general funding reductions inhibit the ability of local authorities and housing associations to pursue early intervention policies, preventing people falling into long-term benefit dependency. This has cost implications for the medium- to long-term.
- The cost of administering housing benefit is rising as a result of welfare reform. Around half of local authorities and housing associations surveyed said housing benefit is becoming significantly more costly to administer, partly due to the increased complexity of cases.

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



Spreading their wings: Building a successful local authority trading company

Grant Thornton

Our report, 'spreading your wings' focuses on how to set up a local authority trading company and, importantly, how to make it successful. It is available at <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

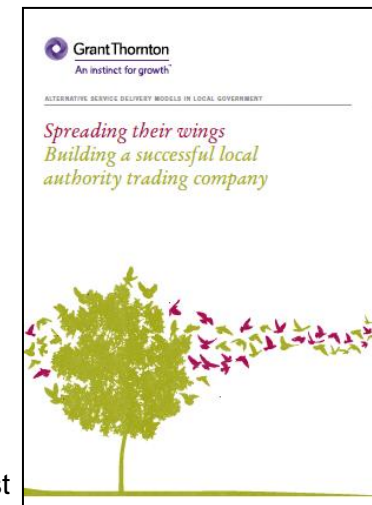
The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs (including contributions from Cheshire East Council and its companies), and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with.

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





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