

**BRISTOL CITY COUNCIL  
AUDIT COMMITTEE**

**26 JUNE 2015**

**Report of: Service Director (Finance)**

**Title: Grant Thornton – 2014-15 Progress report**

**Ward: Citywide**

**Officer presenting report: Grant Thornton UK LLP**

**Contact telephone number:**

**RECOMMENDATION**

The Audit Committee note, and comment as appropriate, on Grant Thornton's progress report for 2014-15.

**Summary**

Attached to this report is Grant Thornton's latest progress report update in respect of their 2014-15 audit. This report considers the planned work and progress to date in:

- the financial statements audit;
- the Value for Money (VfM) conclusion work.

The report also provides additional information for audit committee members on sector developments and accounting hot topics that the Council will need to consider as part of the preparation of its 2014-15 financial statements.

**Policy**

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. Grant Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements. In particular these are the Audit Commission Act 1998 and the Code of Audit Practice with regard to audit, and the

Local Government Act 1999 with regard to best value and inspection.

## **Consultation**

**Internal:** Grant Thornton consulted with Senior Finance Officers before finalising the progress report.

**External:** None.

## **1 Introduction**

1.1 Grant Thornton is required to form an opinion on the Council's annual financial statements and to provide a value for money conclusion. This report summarises the work planned and progress to date.

1.2 Barrie Morris, the appointed auditor responsible for the City Council's audit will be attending the Committee, and will be pleased to answer Members' questions.

## **Other Options Considered**

Not applicable.

## **Risk Assessment**

Not as a result of this report.

## **Equalities Impact Assessment**

There are no issues arising from this report.

## **Legal and Resource Implications**

None arising from this report.

## **Appendices:**

Appendix 1: Grant Thornton's Progress report update 2014-15

## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**Background Papers:** None

# Audit Committee Update Bristol City Council

**Year ended 31 March 2015**

June 2015

**Barrie Morris**

Director

T +44 (0)117 305 7708

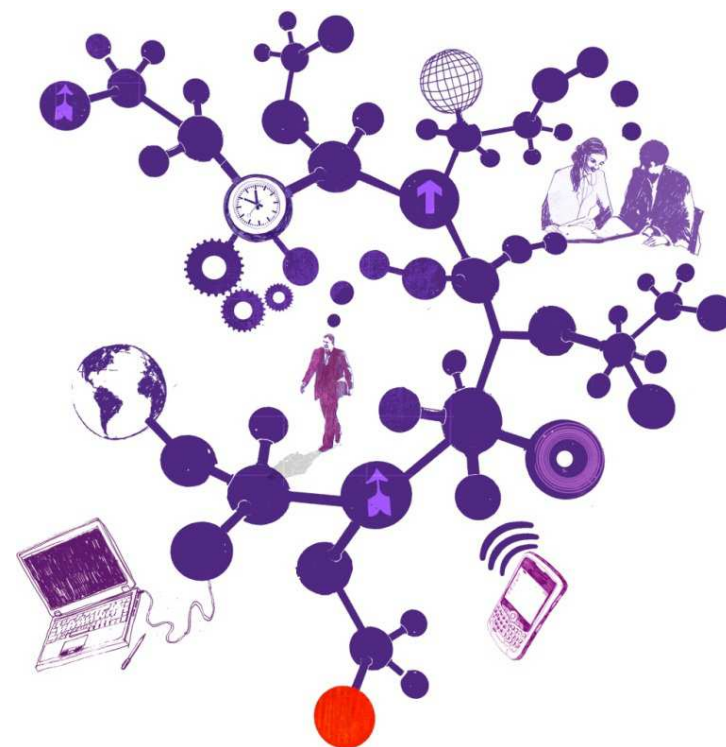
E [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)

**Julie Masci**

Senior Manager

T +44 (0) 29 2034 7506

E [julie.maschi@uk.gt.com](mailto:julie.maschi@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

Section	Page
Introduction	4
Progress at June 2015	5
Emerging issues and developments	
Grant Thornton	7
Local government issues	9
Accounting and audit issues	12

# 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:

- 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
- 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.

**Barrie Morris** Engagement Lead T 0117 305 7708 M 07771 976684 [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)  
**Julie Masci** Senior Manager T 02920 347506 M 07730 677623 [julie.masci@uk.gt.com](mailto:julie.masci@uk.gt.com)

# Progress at June 2015

Work	Planned date	Complete?	Comments
<b>2014-15 Accounts Audit Plan</b> 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.	April 2015	Yes	We have concluded our initial risk assessment to inform our final audit plan for 2014-15. This plan has been discussed with the Council and reported to the April audit committee.
<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>• Initial risks assessment to inform our Value for Money conclusion.</li> </ul>	March – April 2015	Yes	On site interim audit visit took place in March & April 2015. A summary of findings from our interim audit were set out in our audit plan. This was discussed with the Council and reported to the April audit committee.
<b>2014-15 final accounts audit</b> Including: <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>	July – September 2015	Not yet due	On site final accounts fieldwork is due to commence in July 2015 following receipt of the draft accounts.

# Progress at June 2015

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2014-15 VfM conclusion is in the process of development. However this is required to include consideration of: <ul style="list-style-type: none"> <li>Assessing whether the Council has proper arrangements in place for securing financial resilience; and</li> <li>Reviewing the Council's arrangements for ensuring it has proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources.</li> </ul>	Initial risk assessment – April 2015  Fieldwork and final conclusions – June to September 2015	Initial risk assessment – Complete  Fieldwork - Ongoing	We have completed our initial risk assessment to inform our work under the VfM conclusion. Our proposed scope of work was set out in our audit plan to the Council. This plan has been discussed with the Council and reported to the April audit committee.  Our detailed fieldwork is currently in progress and will be concluded and reported to the September 2015 audit committee.
<b>Other activity undertaken</b>	Ongoing throughout the year	Ongoing	In December 2014, representatives from the Council's finance team attended our 'Accounting for Schools and Infrastructure' workshops to update them on the latest developments.  In February 2015, Council representatives are scheduled to attend our PFI accounting workshop. The workshops will cover opportunities to make savings in existing PFI contracts and propose solutions to aspects of accounting for PFI projects which have given difficulty in the past.  As part of our interim visit and regular meetings programme we have met with senior finance officers to discuss the key accounting issues for the 2014-15 accounts. A summary of these issues are set out on page 13.



# 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, 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.



# Welfare Reform Review: Easing the burden

## Grant Thornton

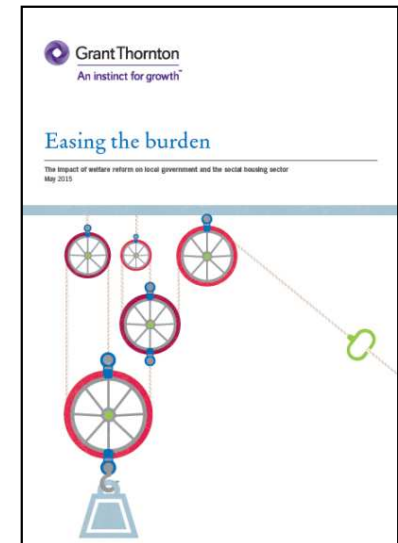
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

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 key messages 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.



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

## Local government issues

The Queen's Speech was presented to Parliament on 27<sup>th</sup> 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.

## Challenge question

Have members:

- been briefed by your Service Director – Finance on the new government's proposed legislative programme and its likely impact on the Council?

# Local Government New Burdens

## Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5<sup>th</sup> 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 new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

## Challenge question

Have members been briefed by your Service Director – Finance on the key findings of the NAO's review of new burdens on local government?

# 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.*

## Challenge question

Have members been briefed by your City Director/ Service Director - Finance on the headline messages from the LGA's white paper on devolution?

# Understanding your accounts – Member guidance

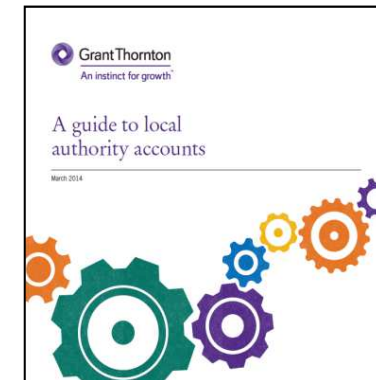
## Accounting and audit issues

Local authority Audit Committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand.

In 2014 we prepared a guide for Members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help Members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position. Any new members to the Audit Committee may find this guide helpful.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; and
- other statements and additional disclosures



We have provided copies of the Guide to Local Authority accounts to the Council for distribution to the Audit Committee.

# 2014/15 Accounts hot issues

## 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

**Provisions for business rates appeals** – as a result of a change in rules relating to business rates appeals we do not expect to see provisions for unlodged appeals in 2014/15 accounts

**Early payment of pension contributions** – 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 and the accounting judgements and treatment in the 2014/15 accounts should reflect the advice received

**Inclusion of overtime in the calculation of holiday pay** – authorities that are likely to be affected in a material way by the Employment Appeal Tribunal judgement on the extent to which overtime pay should be included in the calculation of holiday pay should include an appropriate provision in their 2014/15 accounts

## Challenge question

Has your review of the Council's 2014/15 accounts included consideration of these hot issues?



© 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)**