

**Agenda Item No:** 11  
**Report To:** **AUDIT COMMITTEE**



**Date:** **30 June 2015**

**Report Title:** External Audit 2015 Plan and Audit Update

**Report Authors:** Paul Naylor, Deputy Chief Executive (covering summary)  
Emily Hill/Lisa Robertson (Grant Thornton's reports)

**Summary:** Attached are two reports from Grant Thornton UK LLP.

The first sets out the external audit plan for work associated with the 2014-2015 financial statements and this year's value for money assessment. Interim work completed has not highlighted any material issues to draw to management or members' attention.

The second contains the latest general update from Grant Thornton. As well as some details on the progress of audit work at Ashford, the report provides details of Grant Thornton's national reports covering a number of themes. All documents mentioned have been received by the council and the contents will feed into officers and members' work over the coming months. Not all issues mentioned in these reports are directly for the Audit Committee to consider, however. Due to the importance of the topics it is suggested that key points be the subject of pre-committee briefings, as well as more formal reports to members in due course. Copies of the guidance to understanding local authority accounts will be circulated separately to members of this committee.

**Key Decision:** Not applicable

**Affected Wards:** Not applicable

**Recommendations:** The Audit Committee is asked to note the reports of the external auditor.

**Policy Overview:** External audit is a statutory requirement and the work of the auditors, including the advice papers received forms an important part of the council's governance and ongoing development.

**Financial Implications:** None arise directly from this report

**Risk Assessment** Not applicable

**Equalities Impact Assessment** Not applicable

**Other Material  
Implications:**

The matters referred to in Grant Thornton's national reports will help to inform officers future reports and members' decisions over the coming months

**Background  
Papers:**

None

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# The Audit Plan for Ashford Borough Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

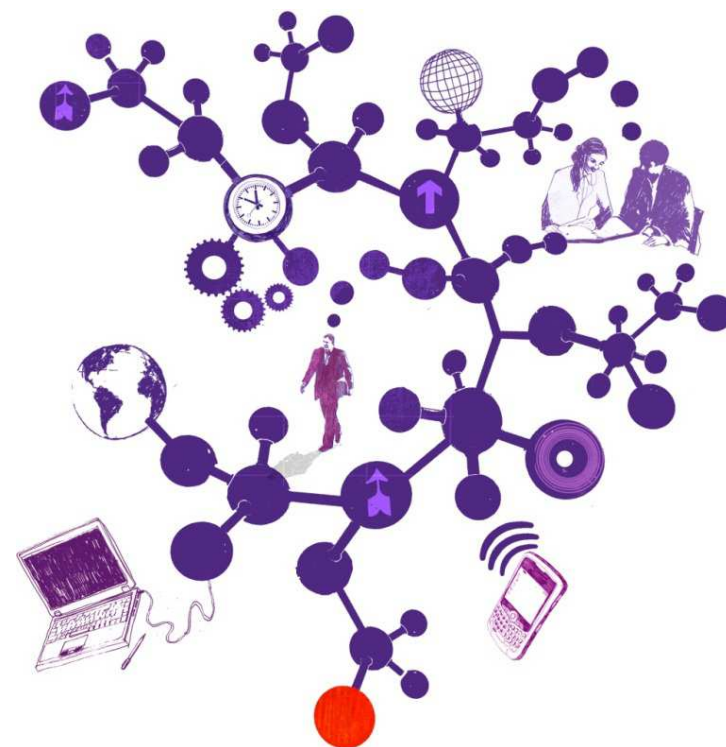
**Year ended 31 March 2015**

April 2015

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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 the Council 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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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities					
<b>1. Continued reductions in grant funding</b> <ul style="list-style-type: none"><li>Central Government grant funding is continuing to decrease and the Council need to look at new ways of generating revenue.</li><li>To mitigate the effects of reduced funding, the Council is working towards becoming self-financing.</li></ul>	<b>2- Welfare reform</b> <ul style="list-style-type: none"><li>Central Government is continuing with their welfare reform agenda including changes to current Housing Benefit arrangements and the implementation of Universal Credit. This impacts upon the role of the Revenues &amp; Benefits team.</li></ul>	<b>3. Alternative Delivery Models</b> <ul style="list-style-type: none"><li>2014/15 is the first year of trading for local authority property trading companies</li></ul>	<b>4. Proposals to produce £1.6 million of savings</b> <ul style="list-style-type: none"><li>Delivering efficiency savings through improved procurement</li><li>Borrow and acquisition strategy with a target of £750k over 5 years.</li></ul>	<b>5. Delivery of major projects</b> <ul style="list-style-type: none"><li>The Council continues to focus on delivering a number of projects as part of its FOCUS 2013-15 document.</li><li>Projects include the development of Elwick Place, new junction off the M20 and the Conningbrook Lakes Country park.</li></ul>	<b>6. Earlier accounts closure</b> <ul style="list-style-type: none"><li>The government has brought forward to timetable for closure of accounts from 30 September to 31 July from 2017/18.</li><li>The Council will need to identify ways in which it can streamline the accounts preparation process.</li></ul>
Our response					
<ul style="list-style-type: none"><li>We will review your Medium Term Financial Plan and financial strategy as part of our Value for Money work.</li></ul>	<ul style="list-style-type: none"><li>We will discuss the impact of the reform agenda with the Council through our regular meetings with officers.</li></ul>	<ul style="list-style-type: none"><li>We will consider the accounting treatment being applied for the trading companies.</li></ul>	<ul style="list-style-type: none"><li>We will review the progress you have made in delivering your efficiency savings in this area as part of our work on your arrangements for financial resilience.</li></ul>	<ul style="list-style-type: none"><li>We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance.</li></ul>	<ul style="list-style-type: none"><li>We will continue to work with the Council on ways in which it can streamline its accounts preparation process such as decluttering, proposed estimations and areas for early preparation.</li></ul>

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Financial reporting

- Changes to the CIPFA Code of Practice for Local Authority Accounting (the Code)
- Adoption of new group accounting standards (IFRS 10, 11 and 12)

### 2. Legislation

- Local Government Finance settlement
- Business Rates Review and New Homes Bonus Review

### 3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

### 5. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

### 6. Other requirements

- The Council is required to submit a Whole of Government accounts pack
- The Council completes grant claims and returns on which audit certification is required

## Our response

We will ensure that

- the Council complies with the requirements of the Code through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

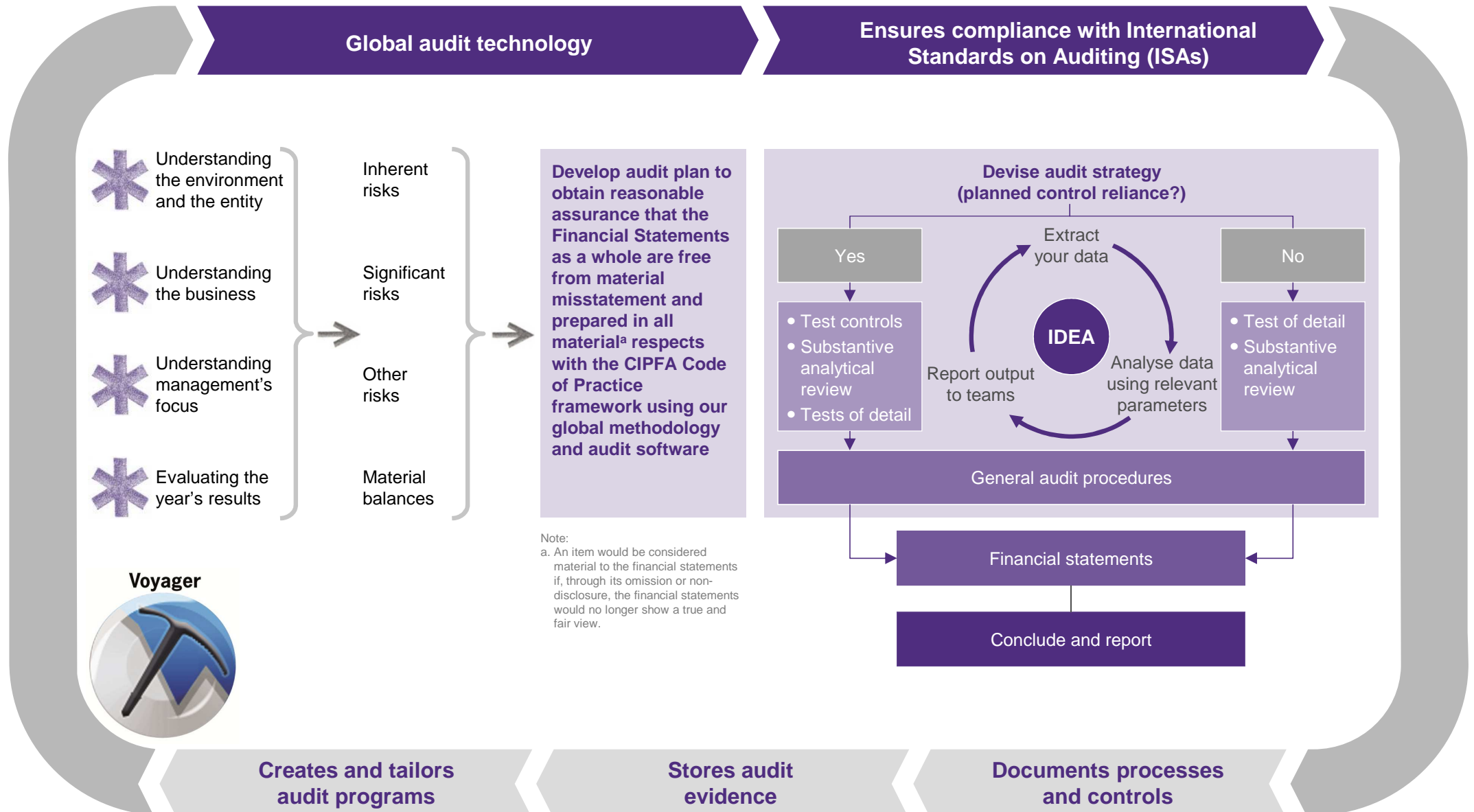
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This has taken on the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

# Our audit approach





# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA(UK&I)315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA(UK&amp;I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA(UK&amp;I)240 and the nature of the revenue streams at Ashford Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including Ashford Borough Council, mean that all forms of fraud are seen as unacceptable.</li></ul>
Management over-ride of controls	<p>Under ISA(UK&amp;I)240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed at interim:</b></p> <ul style="list-style-type: none"><li>• Assessment of internal controls in place relating to the posting of journal entries</li><li>• Testing of journal entries for months 1 - 9</li><li>• Reviewed unusual significant transactions</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries for months 10 - 12</li><li>• Review of unusual significant transactions</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA(UK&I)315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period  (Operating expenses understated)	<b>Work already performed :</b> <ul style="list-style-type: none"><li>• We have Identified the system controls and walked through the operating expense system</li><li>• We have performed early substantive testing on a sample of operating expenses from Month 1-9</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>• Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces</li><li>• Cut off testing to assess whether transactions are recorded in the correct period</li><li>• Substantive testing of operating expenditure payments for months 10-12</li><li>• Substantive testing of year end payable balances</li><li>• Procedures to gain assurance that material goods and services received prior to the year are correctly accrued</li></ul>
Employee remuneration	Employee remuneration accruals and expenses are understated  (Remuneration expenses not correct)	<b>Work already performed :</b> <ul style="list-style-type: none"><li>• We have Identified the system controls and walked through the payroll system</li><li>• We have begun the substantive testing of payroll payments</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>• Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li><li>• Trend analysis and risk identification for monthly payroll costs</li><li>• Complete substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's contract of employment and deductions are correctly calculated</li><li>• Testing to confirm the completeness of payroll transactions and appropriate cut-off</li></ul>

## Other risks identified (Cont.)

Other risks	Description	Audit Approach
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p><b>Work already performed :</b></p> <ul style="list-style-type: none"> <li>• We have met with the Revenues and Benefits operations manager to set up the arrangements for the performance of welfare benefits testing.</li> <li>• We have identified the system controls and walked through the housing rents system</li> <li>• We have performed the testing of the system parameters (Module 2)</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will complete the remaining modules set by the DWP which include performance of an analytical review and Housing Benefit subsidy certification. This will involve the selection of samples of welfare benefit expenses from across the year, for which the benefit payable will be recalculated to determine whether the amount paid was in accordance with DWP guidelines and welfare legislation</li> <li>• Testing the reconciliation of the Housing Benefit system to the general ledger</li> </ul>
Housing Rent Revenue Account	Revenue transactions not recorded	<p><b>Work already performed :</b></p> <ul style="list-style-type: none"> <li>• We have Identified the system controls and walked through the housing rents system</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Agreement of housing rents system to the general ledger</li> <li>• Agree general ledger to subsidiary rents ledger (if appropriate)</li> <li>• Rental income cut-off tests</li> <li>• Detailed analytical review and proof in total</li> </ul>

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# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified. We will

- review the Council's arrangements for securing financial resilience for 2014/15 and for future periods, through review of the medium term financial plan including the assumptions made; and
- review the 2014/15 financial performance.

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.

# Results of interim audit work

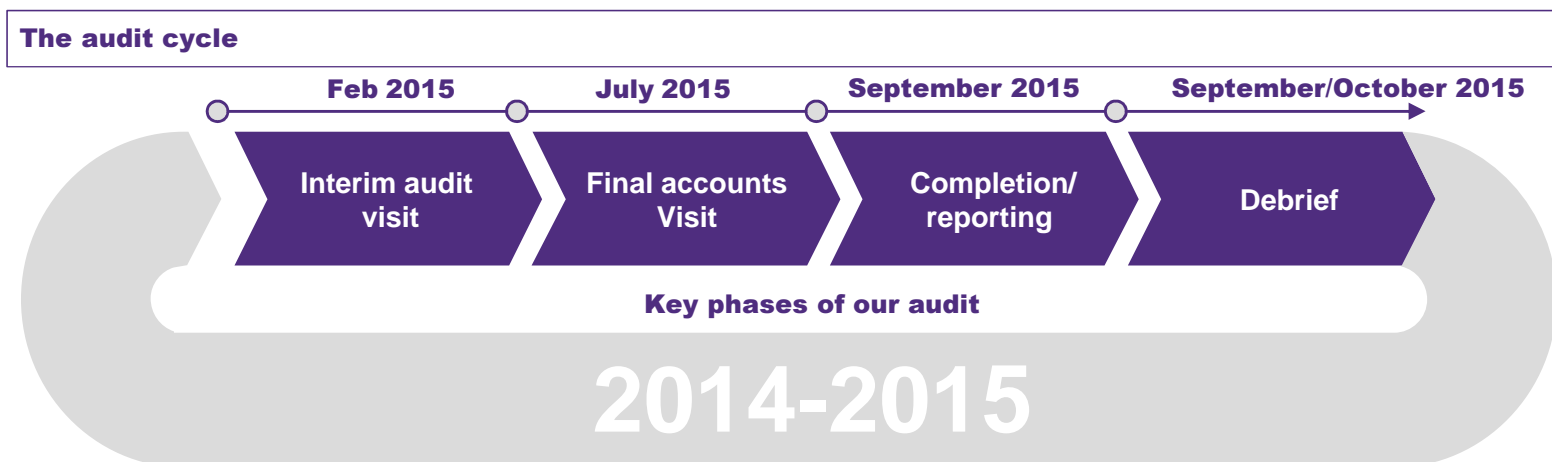
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	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"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<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
<b>Review of information technology controls</b>	Our information systems specialist performed a high level review of the general IT control environment in 2013/14 with no issues arising. We have updated our understanding of the IT control environment, as part of the overall review of the internal controls system.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Journal entry controls</b>	<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>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Early substantive testing</b>	We have performed early substantive testing of operating expenses and payroll expenditure for months 1-9	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Value for money</b>	We have completed the initial risk assessment to inform our Value for Money conclusion.	We will report any significant findings arising from this work to the Audit and Governance Committee in our Audit Findings Report.

# Key dates



Date	Activity
02 February 2015 – 13 February 2015	Interim site visit
23 March 2015 – 02 April 2015	Interim site visit plus early testing
30 June 2015	Presentation of audit plan to Audit Committee
29 June 2015 – 17 July 2015	Year end fieldwork
27 August 2015	Audit findings clearance meeting with Deputy Director of Finance
29 September 2015	Report audit findings to those charged with governance
30 September 2015	Sign financial statements opinion

# Fees and independence

## Audit Fees

	Fees £
Council audit	£80,415
Grant certification	£14,200
<b>Total fees (excluding VAT)</b>	<b>£94,615</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £
None	Nil

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.



# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA(UK&I)260), as well as other ISA(UK&I)s, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code of Audit Practice.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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# Ashford Borough Council Audit Committee Update

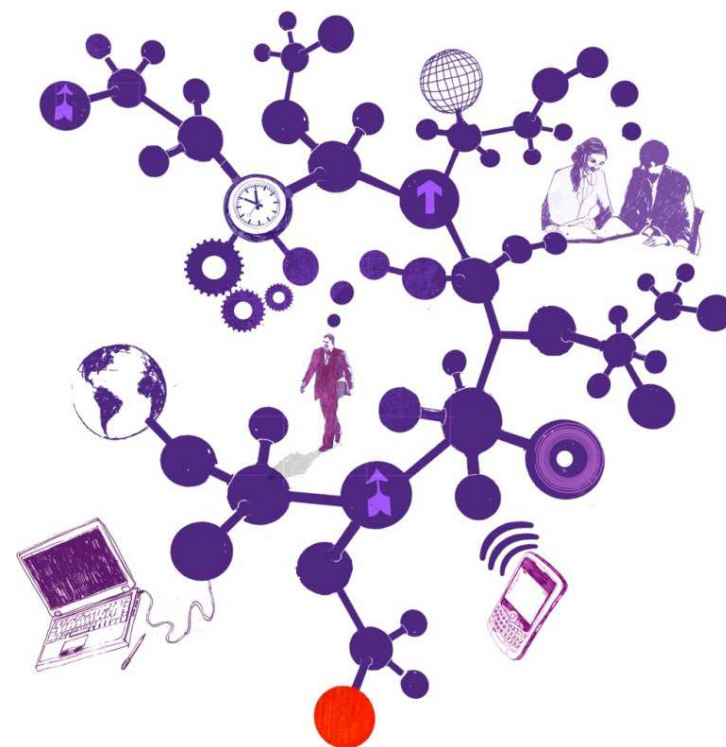
**Year ended 31 March 2015**

June 2015

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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:

- 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.

# 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.	March 2015	June 2015	The Audit Plan will be presented to the Audit Committee alongside this update paper.
<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> </ul>	November 2014-March 2015	June 2015	The findings from our interim visit are included in the audit plan which will be presented to the Audit Committee alongside this update paper.
<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> </ul>	July 2015-August 2015	Not yet due	The findings will be provided in our Audit Findings Report, to be presented to the September Audit Committee.

# 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 based on the reporting criteria specified by the Audit Commission: The Council has proper arrangements in place for: <ul style="list-style-type: none"> <li>• Securing financial resilience – focusing on financial governance arrangements, strategic financial planning and financial control</li> <li>• Challenging how it secures economy, efficiency and effectiveness in its use of resources</li> </ul>	November 2014-September 2015	Not yet due	The audit plan, presented to the Audit Committee alongside this update paper, includes details of our planned audit work on the vfm conclusion.  The findings will be reported in our Audit Findings Report, to be presented to the Audit Committee in September 2015.
<b>Grant Certification</b>  We are required to certify the Housing Benefit Claim in 2014/15	June 2015-November 2015	Not yet due	Initial testing will be completed to support the work on the financial statements by end September 2015. Additional testing arising from the results of the initial testing will be agreed with officers to ensure that this can be completed before 30 November 2015 submission deadline.
<b>Other activity undertaken</b> Since our last committee: <ul style="list-style-type: none"> <li>• We have invited officers to our tax seminar</li> <li>• We have circulated our recent thought leadership documents on Welfare Reform and LA trading companies</li> <li>• We have fed in our views on the role of the audit committee for the new members training</li> </ul>	-	-	We would always be happy to discuss any other ways in which Grant Thornton can support the Council.



# 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

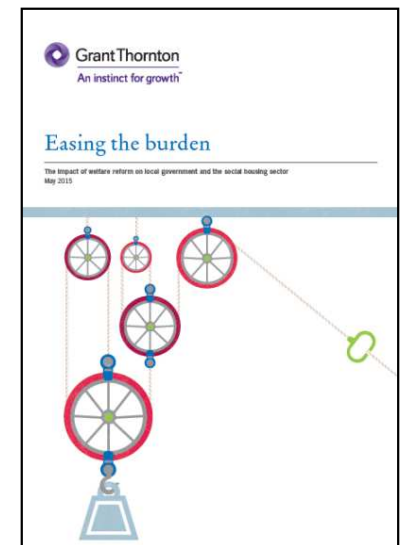
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

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.

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# 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 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 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 on the headline messages from the LGA's white paper on devolution?

# Understanding your accounts – Member guidance

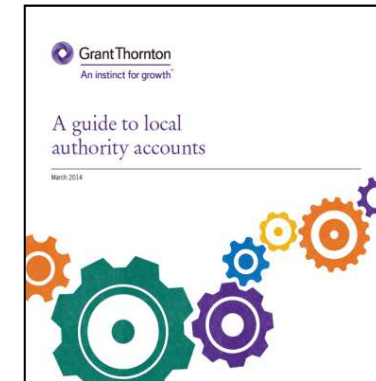
## Accounting and audit issues

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.



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