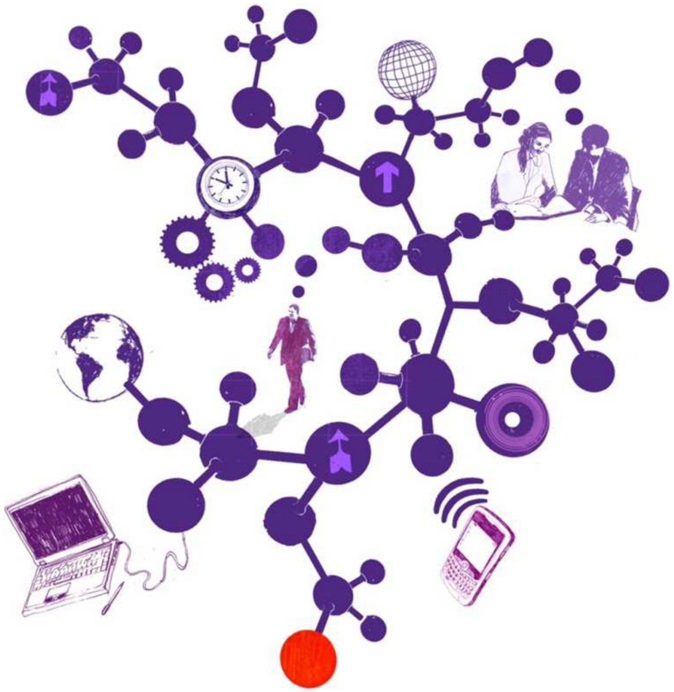
Corporate Committee Update for London Borough of Haringey

Year ended 31 March 2014

January 2014



Paul Dossett
Partner
T 020 7728 3180
E paul.dossett@uk.gt.com

Paul Jacklin
Manager
T 020 7728 3263
E paul.j.jackin@uk.gt.com

Richard Bennett
Executive
T 020 7728 3241
E richard.s.bennett@uk.gt.com

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Introduction

This paper provides the Corporate 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 as a London Borough Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Corporate 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. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?' '2016 tipping point? Challenging the current',
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.

Paul Dossett (Engagement Lead) T 020 7728 3180 M 07919025198 paul.dossett@uk.gt.com
Paul Jacklin (Audit Manager) T 020 7728 3263 M 0788 0456186 paul.j.jacklin@uk.gt.com

Progress at January 2014

Work	Comments
2012/13 Audit Certificate	We were not able to certify the 2012/13 audit as complete due to a potential objection raised on the accounts by a local authority elector . The Council continues to liaise with the local elector and provide them with documentation to satisfy requests. Once resolved we will be able to issue the audit certificate and close the 2012/13 audit. We will update the Committee on progress at the next meeting.
2012/13 Grant certification work	We have completed the certification work for the four claims required to be audited. For all claims our work was completed by the statutory deadlines. Our full certification report is a separate item on the agenda.
2013-14 Audit planning	Following the completion of the 2012/13 audit, we are now working with the Council to prepare for the 2013/14 audit. We will work with the Finance team throughout the year to support improvements to the accounts compilation and audit processes. We are attending the Council's financial accounts workshop in February. Our initial planning visit for the 2013/14 audit is scheduled for late January 2014. As part of this visit we will be updating our understanding of key financial systems through discussions with officers and testing controls in these areas. As part of our wider audit planning we are meeting with officers to ensure our work is focused on the key risks facing the Council in respect of its financial statements audit and Value for Money conclusion.

Progress at January 2014

Work	Comments
2016 tipping point? Challenging the current	We have published our third annual report on whether English local authorities have the arrangements in place to ensure their sustainable financial future. The report validates as possible or probable the concept of a series of potential 'tipping point scenarios' identified in last years' report. Moreover, 79% of local authorities anticipate some form of tipping point in 2015/16 or 2016/17. Our report also suggests some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. Including a focus on generating additional sources of revenue income, such as, investments in the commercial property portfolio; increased commercialisation of services and local authority trading; and regeneration and inward investment to boost local economic activity. In addition, councils will need to continue to improve efficiency through, for instance, shared services, strategic partnerships and wider re-organisation.. Copies of the report have been provided to the Council. It is also accessible via the Grant Thornton website at : Grant Thornton - 2016 tipping point? Challenging the current

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published 'Income from charging: Using data from the VFM Profiles, September 2013'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth. In London 20% of the Business Rate growth goes to the Greater London Authority.

In October, the Audit Commission published 'Business rates: using data from the VFM profiles October 2013'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Emerging issues and developments

Local government guidance

Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The Integration Transformation Fund statement, signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two year plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Emerging issues and developments

Grant Thornton

Local Government Pensions Governance Review

This report presents the findings of our first review of Local Government pension schemes' governance. Based on comprehensive research with pension fund senior officers and supported by insights from pension fund auditors, our report shows that there is a wide variety of practice across the UK:

- 70% of funds operate with a single pension committee, but those that use sub-groups are able to act more quickly, with a greater focus on the strategic management of the fund, while ensuring the important aspects of operation are given proper consideration
- only 25% of funds provide their pension committee with regular (more than once a year) reports on key risks affecting the fund
- only 22% of funds are implementing action plans resulting from the CIPFAs knowledge and skills framework
- 60% of pension funds benchmark their costs and have reduced them in recent years, but reporting to pension committees on administration costs and savings is under-developed
- there are lessons to be learnt from funds that have worked collaboratively to reduce costs, share expertise and improve services.

The report also provides an outline of governance and reporting best practice and an update on the significant changes to Local Government pension schemes.

If you have any queries on governance, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in Room 151, the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were are only half the length of those for 2011/12 and were much easier to follow.

The article can be accessed at: http://www.room151.co.uk/blogs/improving-the-preparation-and-audit-of-your-financial-statement/

Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a briefing note on the Local Audit and Accountability Bill. The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?