

# Audit Committee Update

## Swindon Borough Council

Year ended 31 March 2016

April 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

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

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.

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# Progress at April 2016

Work	Planned date	Complete?	Comments
<b>2015-16 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 2015-16 financial statements.	April 2016	April 2016	Included with April agenda
<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>• work for the Value for Money conclusion.</li> </ul>	January to April 2016	Yes	The matters arising are summarised in our Accounts Audit Plan
<b>2015-16 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July to September 2016	No	

# Progress at April 2016

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2015/16 VfM conclusion comprises: <ul style="list-style-type: none"><li>• an initial risk assessment;</li><li>• a detailed review of arrangements;</li><li>• reviewing key documents; and</li><li>• discussions with officers.</li></ul>	March to September 2016	No	The risk assessment is reported in our Accounts Audit Plan
<b>Other areas of work</b> Certification work on the Council's Grant Claim and returns including the Housing Benefits Claim	November 2016	No	We have been in contact with officers to select initial HB samples.
<b>Other activity undertaken</b> We have been liaising with officers to discuss issues affecting the year end accounts.	September 2016	No	On-going

# Accounts - public rights of inspection and challenge

## Local Government issues: National Audit Office

### Council accounts: a guide to your rights

The NAO has published an updated version of 'Council accounts: a guide to your rights' on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

### Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15<sup>th</sup> July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

# IFRS 13 'Fair value measurement'

## Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.



# Unlodged non-domestic rate appeals

## Accounting and audit issues

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

# Local Authority Trading Companies

## Grant Thornton Seminar - Building a successful local authority trading company

On 11<sup>th</sup> February Grant Thornton hosted a free client seminar, in Taunton, looking at Local Authority Trading Companies (LATC). It was attended by 29 officers from councils in the South West. Although nobody from Swindon Borough Council could attend we would be happy to share our slides from the day with the Council.

As councils look for different ways to reduce costs, improve efficiency and generate income some are setting up local authority trading companies. We predict that the number of these companies will continue to grow over the next five years.

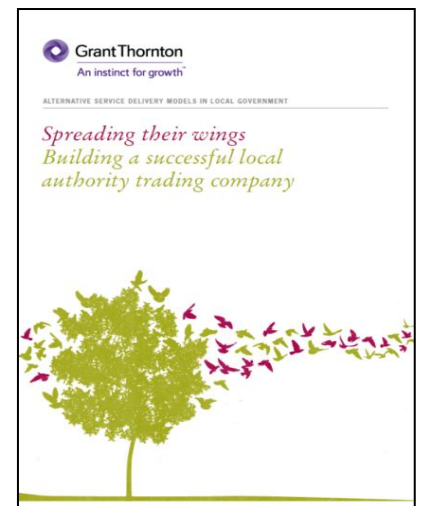
The seminar considered the themes set out in our recent report, 'Spreading their Wings', focusing on how to set up and build successful local authority trading companies.

Attendees heard from Grant Thornton Local Government Advisory and Tax colleagues, with a focus on the complexities of Corporation tax, SLDT, VAT and Employment taxes when entering into such arrangements.

Martin Farrow from Buckinghamshire Care Limited shared his experiences from the Buckinghamshire Care journey "A merger between sustainability and purpose". He set the scene – underfunded social care, government savings, rising demand, ageing population and service cutbacks meaning a lot fewer people receiving services. The solution? A seismic shift in commissioning.

Hugh Lambourne from Bournemouth Borough Council explained his Council's approach to developing its commercial services "Building a successful LATC & Commercial Council". Offering an insight into why you might create an LATC or alternatively why you might choose not to trade through an LATC!

The day ended with a panel session with Martin and Hugh being joined by Sarah Longthorpe - Bournemouth Borough Council, Giles Letheren – Delt shared Services limited and Frank Wilson – Ubico Limited. A lively set of questions were posed by delegates.



You can download a copy of the Grant Thornton report – Spreading their wings from the website at <http://www.grant-thornton.co.uk/en/Sectors/Government--Public-Sector/>  
Hard copies are also available from your Engagement Lead and Audit Manager.

Grant Thornton's next report on Joint Ventures will be available in April

# The changing face of Corporate Reporting

The Chief Executive Officer of the International Integrated Reporting Council (IIRC) spoke at the February 2015 meeting of our Global Public Sector Group.

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

We have been a long-time supporter of the IIRC through Council membership and staff secondments. The most recent of these secondments was focussed on helping the IIRC explore and promote how the benefits already being experienced by businesses implementing <IR> can be extended to public sector organisations.

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

<IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.

<IR> is underpinned by the International <IR> Framework published in December 2013. It is principles-based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.

<IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

## <Integrated Reporting>

### Challenge question:

Is the Audit Committee aware of integrated reporting, <IR>, and the guidance issued by the International Integrated Reporting Council?

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

The IIRC's website includes the following sections to enable organisations to understand the approach:

- **Why?** – which sets out the need for change.
- **What?** – which explains the tool for better reporting.
- **How?** – which provides practical help and tips.

It is generally acknowledged that reporting can change behaviours. We would therefore encourage you to review this guidance and if you believe it would be of potential interest and benefit to your organisation we would be pleased to discuss and share our expertise and knowledge on how improved reporting could also lead to better decisions, enhanced accountability and trust and improved performance.



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