

## Local government audit committee briefing

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This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



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## Government and economic news

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### EY ITEM Club Winter Forecast 2014-15

The latest forecast by the EY Item Club for winter 2014-15 highlights the global oil price collapse, which is creating winners and losers worldwide – with the UK decisively a winner. It sees cheaper energy giving consumers a major shot in the arm and driving inflation as measured by the Consumer Prices Index (CPI) down to an average of zero this year. As a result EY Item Club has revised up its forecast for UK GDP growth in 2015 to 2.9% from 2.4% in October. With inflation averaging zero in 2015, this will effectively put any rise in base rates on hold until 2016. Together with stronger real income growth, a boost in housing activity is predicted.

Against this, the negatives are risks which could arise, as opposed to existing ones. A lack of demand in the global economy is a factor reflected in the oil price and worries over the Eurozone are intensifying. Additionally, the consumer-led growth in the UK economy will leave it even more unbalanced and dependent on domestic consumption.

### 2015-16 Local Government settlement

Following the provisional settlement published in December 2014, the government has published its final 2015-16 settlement in February. The overall reduction in spending power has been calculated as 1.7%, with a maximum reduction of 6.4%.

An additional £74mn has been allocated to upper tier authorities to reduce pressures in areas including local welfare and health and social care budgets.

The government also announced £37mn being provided to Authorities in 2014-15 for the provision of additional support packages to prevent hospital admissions where possible, and ensure that support is available to enable patients to leave hospital when they are ready.

The Local Government Association (LGA) has produced a briefing on the final settlement which includes the following messages:

- ▶ Councils will have to make savings of £2.5bn in their budgets in 2015-16. Sixty percent of respondents to an LGA survey in 2014 were considering stopping at least some key local services in 2015 due to lack of funding, which demonstrates the future pressure on front line services unless savings and alternative income streams are identified, and existing income streams maximised.
- ▶ Services including social care for children are seeing reductions for the first time
- ▶ Reductions of the same magnitude are forecast by the Office for Budget Responsibility and the Institute for Fiscal Studies until 2020
- ▶ The LGA welcomes the announcement of an additional £74mn, but calculates a reduction in welfare funding of £100mn



# Accounting, auditing and governance

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## Annual reports and accounts – lessons from the private sector

In its September 2014 report *Out with the old, in with the new* EY made observations from its review of 2013 annual reports in the FTSE 350. The issues and challenges addressed resonate strongly in the public sector. In this article, we consider some of the key messages from that report and how local government bodies can benefit from embracing those messages.

### Does size matter?

It is a difficult balancing act to decide the optimum level of information reported to stakeholders. EY's report found that the best Annual Reports and Accounts were not necessarily the longest or the most detailed. Stakeholders want the annual report to present concise and relevant information in a way that helps them understand how their money is being spent and how their services are being managed, along with a clear description of the risks and challenges that lie ahead.

### Think FBU – 'fair, balanced and understandable'

The annual report is a chance for bodies to tell the story of the last 12 months, and FBU is a helpful guiding concept. The focus of the report should be on the narrative – why we exist, our strategic priorities, how we have progressed over the last 12 months. Some of the best examples of transparent reporting explained 'what didn't go to plan' in key areas of the narrative. Reporting weaknesses, difficulties and challenges as well as successes, makes for a 'fair' and 'balanced' report and, over time, will help build trust with stakeholders. The best annual reports will have clear signposting between each section and will cross refer between sections.

Bodies should do more to integrate financial and non-financial reporting, for example, by highlighting the key financial

and non-financial strategic objectives and how chosen key performance indicators are truly driving value and achievement against these objectives. There should be a clear explanation of how risks impact the organisation and could impede the achievement of strategic objectives.

### Good reporting of governance

The annual governance statement is particularly susceptible to repetition of boiler plate disclosures. The most important, interesting and valuable governance information is what the body actually did from a governance standpoint during the year and what changed. Be clear in what the messages are that need to be conveyed, including:

- ▶ Compliance with the CIPFA/SOLACE principles of good governance
- ▶ Key risks and challenges identified at the start and during the year
- ▶ Clear explanation of how these challenges were addressed
- ▶ Clear explanation of failings in governance
- ▶ Changes to governance arrangements made as a result
- ▶ Reports from those charged with governance describing what the board and its committees did in the year and a flavour of outcomes from their review of effectiveness

### Conclusion

Good annual reporting should not be seen as a checklist exercise in disclosures. Continued focus should be put on making annual reports more helpful and understandable for stakeholders.



# Accounting, auditing and governance

## Highly paid off-payroll appointments

### What's the issue?

There have been some high profile cases where Government departments engaged individuals who had controlling roles in large public funded organisations but who were not directly employed by the organisation.

As a result of these cases the Treasury requires public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements).

### What should your organisation have done about it?

To avoid sanction from HMRC and adverse publicity all public sector bodies are required to:

- ▶ Identify all contracts over £220 per day, which are expected to last for more than six months
- ▶ Ensure those arrangements contain clauses allowing your organisation to request assurance that the individual is paying the right amount of tax
- ▶ Undertake a risk assessment of all off-payroll engagements to determine whether assurance needs to be sought that the individual is paying the right amount of tax and where necessary that assurance has been sought
- ▶ Monitor whether assurance has been provided by each individual and maintain evidence
- ▶ If no assurance has been provided by the individual consider terminating the contract or putting the individual onto the organisation's payroll
- ▶ Comply with the detailed additional disclosures required in your Annual Reports

## Local Government Association consultation – sector-led improvement

The Local Government Association (LGA) has issued a consultation on the future of sector-led improvement, with a closing date of 15 March 2015.

Following the abolition of the previous national performance framework, sector-led improvement was introduced, with the LGA taking the role of supporting the sector. It was based on the premise that Authorities are accountable and responsible for their own performance. This shifted the emphasis from national accountability to local accountability, however it also removed the obligation for Authorities to be involved which left external stakeholders unsure about the robustness of the approach.

The LGA are taking stock to identify whether or not the approach is suitable, and whether or not any changes to the approach are necessary. The consultation also gives the opportunity for comment on the inspection of children's services.

All Chief Executives and Leaders should have been sent a unique link to enable them to respond. Others wishing to respond can do so either by filling out the online form or by emailing the LGA.

## What makes a successful project in government?

Major government projects often hit the headlines for cost and time over-runs and but there are many examples of projects which are being delivered successfully.

As Authorities are increasingly facing funding pressures and looking for innovative ways to manage their finances, we are sharing some themes from the 2014 Successful Projects in Government conference. The conference was designed by the UK's Major Projects Authority, in cooperation with EY, the Ministry of Defence and the Nuclear Decommissioning Authority to share details of projects that had been delivered successfully due to the





## Accounting, auditing and governance

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leadership talents and ingenuity of project teams in tackling the challenges that all major projects face.

It brought together senior colleagues from across UK government departments to illustrate that despite the negative picture often painted of project delivery in government, the reality is different.

According to Brian Gorman, UK GPS Advisory Leader, who led the initiative “There is no ‘one size fits all’ solution to project success. The skills and capabilities required for Infrastructure projects can be very different to the skills and capabilities required for service delivery projects. We need to recognise these differences more explicitly in how we conceive, design, plan and resource our projects if we are to deliver maximum value for our investment.”

The 40 case studies and outputs from the event have now been captured in a publication, designed to be a practical tool and network resource for those planning to undertake projects in the future, both in the UK and globally.

To explore these attributes in real situations, the projects showcased have been split into three central themes:

**service delivery, transformation and infrastructure.** Each project provided fresh insights and nuances into what it takes to be successful but five common themes emerged across them all:

- ▶ Strong leadership to inspire, challenge and champion
- ▶ Accountability through and across the project
- ▶ Clear line of sight to crisp policy intent
- ▶ Experienced team who know their business and the business
- ▶ Strong stakeholder management

### Audit Commission report on data quality

The Audit Commission has produced a report on data quality, entitled *Data quality matters*, which reflects on the past work of the Audit Commission and its appointed auditors in relation to data quality.

The report emphasises the importance of data quality, and notes that it is an essential part of robust governance arrangements for securing value for money; since flawed data can result in ineffective decision making.

The key lessons that the report seeks to draw out are:

- ▶ Governance will be most effective when it involves two-way dialogue with the front line, to communicate the importance of data quality
- ▶ The value of data quality needs to be communicated throughout organisations
- ▶ The front line should be engaged in ensuring data quality
- ▶ Data quality should be assured as close as possible to the point of capture



## Regulation news

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### Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 received Royal Assent on 30 January 2014. This officially makes it possible for the Audit Commission to effectively be wound down on 31 March 2015.

Several of the Audit Commission's key functions will continue after its closure. These are summarised below:

#### Management of Audit Contracts:

In order to continue with the management of audit contracts the Local Government Association has created an independent company to oversee the audit contracts. This independent organisation will be called Public Sector Audit Appointments Limited.

#### National Fraud Initiative:

The responsibility for managing, administering and reporting on the National Fraud Initiative (NFI) will pass to the Home Office with effect from 1 April 2015.

### Code of Audit Practice:

Responsibility for producing and updating the Code of Audit Practice will pass to the National Audit Office with effect from 1 April 2015.

Section 32 of the Local Audit and Accountability Act 2014 gives the Secretary of State the power to make provision through regulations about the financial management, internal control, and annual accounts and audit procedures applying to relevant authorities. The Accounts and Audit Regulations 2015 were laid before Parliament on 17 February 2015 and reflect the requirements relating to annual published accounts and audit procedures applying to relevant authorities. The 2011 regulations will continue to apply for the completion of 2014/15 audits, with the 2015 regulations coming into effect for financial years beginning on or after 1 April 2015.

As noted in the January briefing, the Act introduces a compression of the audit timetable for Local Government accounts. This will require the publication of accounts, together with their audit opinion by the 31 July of the financial year immediately following the end of the financial year to which the statement relates. The explanatory memorandum accompanying the Act reiterates the Government's decision to defer this change until 2017/18 to allow a reasonable timescale for Local Government bodies and their auditors to adjust.



## Regulation news

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### NAO – draft Code of Audit Practice

The Local Audit and Accountability Act 2014 provides the legislative basis for the new framework for the audit of local public bodies which was announced by the Government in August 2010.

Previously, the Audit Commission was responsible for the preparation and maintenance of a Code of Audit Practice, which sets out the respective responsibilities of audited bodies and auditors; and explains what local auditors should do to meet their statutory responsibilities for the audit of local public bodies. The Local Audit and Accountability Act makes the Comptroller and Auditor General responsible for the preparation and maintenance of the Code of Audit Practice following the closure of the Audit Commission.

The National Audit Office (NAO) sought the public's views on the draft of its first Code in a consultation that ended at the end of October 2014, and published a final draft code in January 2015.

A key difference as compared to the Audit Commission codes, is that the NAO have taken the decision (which was supported by the majority of responses to the consultation) to produce a single code for all bodies within the new arrangements for local public audit.

The NAO have also pointed out that the Code is principles-based, and will be supported by detailed guidance to auditors which they will seek to provide with the aim of facilitating consistency whilst recognising that the same approach will not always be the most appropriate for all audited bodies.

Subject to Parliament's approval, the Code will take effect from 1 April 2015 for audit work relating to the 2015-16 financial year onwards.



## Key questions for the audit committee

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### What questions should the Audit Committee be asking itself?

- ▶ How have we satisfied ourselves that we are fully compliant with the HMRC requirements regarding our off-payroll staff members?
- ▶ Have our officers critically evaluated the closedown process to identify areas that could be streamlined or brought forward? Are we aware of the areas of the 2014-15 accounts that will contain a higher risk of error and therefore require closer scrutiny?
- ▶ What have our experiences of sector-led improvement been? Are we satisfied that our electorate are able to hold us accountable, and if not, what can we do to enhance local accountability?
- ▶ What can we learn from successfully implemented major projects and how can we apply them to our own initiatives to maximise our finances to ensure that they are effective?
- ▶ Have we monitored our data quality arrangements and adjusted them in the light of changing risks and priorities?
- ▶ Do our data quality arrangements remain robust and effective?





## Find out more

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### EY Item Club

Read more from the ITEM club at: <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

### 2015-16 Local Government settlement

Read about the final finance settlement at: <https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2015-to-2016>

The LGA briefing can be accessed at: <http://www.local.gov.uk/documents/10180/5533246/LGA+Briefing+-+Local+Government+Finance+Settlement+2015-16+-+House+of+Commons+-+10+02+15.pdf/bbd1db5b-4363-4582-937e-7b92dcf60e60>

### Highly paid off-payroll appointments

For further information see the HMRC guidance at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220745/tax\\_pay\\_appointees\\_review\\_230512.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf)

### LGA consultation on the future of sector-led improvement

See details of the consultation at the link below: <http://www.local.gov.uk/documents/10180/6869714/L14-551+Where+next+with+sector-led+improvement/99e45118-653f-4749-a9ae-01b83d796cf0>

### What makes a successful project in government?

For further details of the case studies presented at the conference, ask a member of your EY engagement team for a copy of the full publication.

### Audit Commission report on data quality

Find the report and supporting documents at: <http://www.audit-commission.gov.uk/2015/02/data-quality-matters/>

### Local Audit and Accountability Act 2014

The allocation of responsibilities is available at: [www.audit-commission.gov.uk/about-us/the-future-of-the-audit-commissions-functions/](http://www.audit-commission.gov.uk/about-us/the-future-of-the-audit-commissions-functions/)

The Accounts and Audit Regulations Act 2015 can be found at: <http://www.legislation.gov.uk/uksi/2015/234/contents/made>

### NAO – draft Code of Practice

Read the final draft code in full at: [http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2014/09/Final\\_Draft\\_Code\\_of\\_Audit\\_Practice.pdf](http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2014/09/Final_Draft_Code_of_Audit_Practice.pdf)

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