

Corporate Governance and Standards Committee Report

Report of the Managing Director (Chief Financial Officer)

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External Audit Plan 2014-15 and External Audit Update

Executive Summary

The Council's external auditors, Grant Thornton, have prepared their annual audit plan for 2014-15. The plan is attached as **Appendix 1**, it details the programme of work that Grant Thornton intend to carry audit during 2014-15, the approach they will adopt and significant risks that they will review as part of the audit. Pages 9 and 10 set out the interim audit work undertaken so far and the auditor's conclusions in respect of that work. Page 11 of the audit plan details the parts of the audit and the dates the work will be carried out. Page 12 details the fee that Grant Thornton will charge in respect of the external audit of the Council. The overall fee for the core audit and grant claim work is a small reduction on the fee charged in 2013-14 and is within budget.

The report also presents, at **Appendix 2**, the latest edition of a periodic update that our external auditors will prepare for this Committee. The update covers the progress up to March 2015 and provides a work programme for the rest of the audit to September. The paper identifies a number of accounting issues, which we will consider as we close the accounts for 2014/15. The paper also summarises various documents published by Grant Thornton, the Independent Commission into Local Government Finance, the Local Government Association (LGA) and the Department for Communities and Local Government (DCLG).

Recommendation

That the Committee:

1. approves the external audit plan submitted by Grant Thornton, the fee set out on page 12, Appendix 1 and makes any comments it feels relevant.
2. notes the content of the External Auditor's update report and makes any comments that it feels appropriate

Reason for recommendation:

To enable the Committee to consider and comment on the planned audit fee, work programme and update report

1. **Purpose of Report**

- 1.1 This report provides a summary of the proposed external audit fee and the work programme for the audit of the 2014-15 accounts, value for money opinion and the grant certification work as set out in the audit plan attached at **Appendix 1**. Officers recommend that the Committee notes the fee and makes any comment that it feels relevant
- 1.2 The report also presents the latest edition of a periodic update that our external auditors will prepare for this Committee.

2. **Strategic Framework**

- 2.1 The Developing your Council theme within the Corporate Plan 2013-16 sets out the Council's key priorities of improving value for money and efficiency in service delivery and improving the Council's governance structures. The annual audit by Grant Thornton contributes to the achievement of those priorities.

3. **Background**

- 3.1 When the external audit function transferred to private firms in 2012, the Audit Commission proposed that the scale fee (which covers the core audit) would be reduced by 40 per cent and remains the same until the audit for 2016-17. The fee for the 2014-15 core audit will be £76,710; this represents a small increase in the fee since 2013-14. The small increase is a result of the work in relation to the Council's business rates (NNDR1) return to central government now being included as part of the core audit fee rather than being audited separately as part of the audit work on grant certification. The audit plan contains details of the scope of work covered by the core audit fee.
- 3.2 The external auditor charges a separate fee for Grant Certification work. The indicative fee for 2014-15 is £17,330; this is a reduction of £4,670 since 2013/14. The reduction is due to two reasons:
- a. the NNDR1 claim being audited as part of the core audit work as described above and
 - b. reduced work required to audit the housing benefit claim because council tax benefit no longer exists (it has been replaced by the local council tax support scheme).
- 3.3 The actual fee charged may vary from the indicative fee, depending on the level of work necessary to complete the grant certification work.
- 3.4 Overall, there is a decrease in audit fees from £97,810 in 2013-14 to £94,040 in 2014-15.
- 3.5 This year, Corporate Management Team and the Head of Financial Services have asked Grant Thornton to provide other services to the Council focussed on helping the Council identify strategies to alleviate the budget pressures projected

for 2016-17 and possible alternative service delivery models. The fee for this work is £4,050 and can be contained within the Council's budget for financial services.

- 3.6 Grant Thornton periodically presents an ongoing update of the progress of the annual audit. Attached at **Appendix 2** is the latest of these updates.
- 3.7 The update covers the progress up to March 2015 and provides a work programme for the rest of the audit to September. The paper identifies a number of accounting and audit issues, which we will consider as we close the accounts for 2014/15.
- 3.8 Officers will review the business rates appeals provision for 2014-15. The Council's business rates system, like other business rates systems, will not provide information required to estimate the amount of appeals settled in the year. Officers propose to calculate the overall provision required and adjust the previous year's provision accordingly. The actual refunds incurred during the year because of appeals will be included in the business rates income on the collection fund rather than charging the refunds to the provision. Officers believe our approach in relation to this matter is a pragmatic solution to the problem and will not have any impact on the accounts. If the software suppliers find a solution, then officers will review the accounting treatment for business rates appeals.
- 3.9 Officers have reviewed the impact of the employment tribunal case regarding the inclusion of overtime in the calculation of holiday pay mentioned on page 8 of **Appendix 2**. We have identified a potential cost impact on the Council however; due to the amount being immaterial, we are not proposing to include a provision in the 2014-15 financial statements.
- 3.10 The finance team have received training on the accounting updates contained in the 2014/15 CIPFA code and are evaluating the impact of these changes on the Council. Officers will report on how these issues have affected the Council's financial statements to the Corporate Governance and Standards Committee at the July meeting as part of the report on the draft financial statements.
- 3.11 The update report also summarises various documents published by Grant Thornton, the Independent Commission into Local Government Finance, the Local Government Association (LGA) and the Department for Communities and Local Government (DCLG). Officers are reviewing these documents and will brief Councillors on their impact if necessary.

4. **Financial Implications**

- 4.1 There is budget provision in the 2014-15 estimates for the audit fees and the fees for other services provided by Grant Thornton.

5. **Legal Implications**

- 5.1 The Local Audit and Accountability Act 2014 states that the accounts of a relevant authority for a financial year must be audited:
- a) in accordance with the Act and provision made under it, and
 - b) by an auditor (a “local auditor”) appointed in accordance with the Act or provision made under it.
- 5.2 A local auditor must, in carrying out the auditor’s functions in relation to the accounts of a relevant authority, comply with the code of audit practice applicable to the authority that is for the time being in force. The current code of practice for UK Local Government is the Code of Audit Practice issued by the Audit Commission in 2010. The code adopts the International Standards of Auditing (ISAs) as issued by the FRC.
- 5.3 ISA 260, Communication of audit matters with those charged with governance, requires the auditor to outline the audit strategy and plan to deliver the audit. The External Audit Plan at Appendix 1 meets that requirement. The External Audit Update at Appendix 2 sets out the work and progress to date carried out by the auditors in relation to their audit plan for 2014-15.

6. **Human Resource Implications**

- 6.1 There are no human resource implications to the report

7. **Conclusion**

- 7.1 The report outlines Grant Thornton’s external audit plan for 2014-15. The audit fee has reduced by £3,770 since 2013-14.
- 7.2 The report presents the latest edition of a periodic update that our external auditors will prepare for this Committee. The update covers the progress up to March 2015 and provides a work programme for the rest of the audit to September. The paper identifies a number of accounting and audit issues, which we have summarised in the report and will consider as we close the accounts for 2014-15. The paper also summarises various recent documents published by Grant Thornton, the Independent Commission into Local Government Finance, the Local Government Association (LGA) and the Department for Communities and Local Government (DCLG).

8. **Background Papers**

None

9. **Appendices**

- Appendix 1 – Grant Thornton: The Audit Plan for Guildford Borough Council year ended 31 March 2015
- Appendix 2 – Grant Thornton: External Audit Update for the Corporate Governance and Standards Committee of Guildford borough Council year ended 31 March 2015