

Financial Scrutiny and Audit Committee

22 September 2015

Agenda Item No 10

External Audit Committee Briefing: September 2015

Report by Head of Finance

Summary:	This report appends two briefings, Accelerating your financial close arrangements and a Local Government Audit Committee briefing issued by the Authority's External Auditors, Ernst & Young.
Recommendation:	That both briefings, including the key questions for Audit Committees as set out on page 7 in the first briefing, and page 9 in the second, be noted.

1 Introduction

- 1.1. This report appends Accelerating Your Financial Close Arrangement and a Local Government Audit Committee Briefing issued by the Authority's External Auditors, Ernst & Young (EY).
- 1.2 Two representatives from EY will be attending the meeting.

2 Key Issues

- 2.1 The first briefing is intended to start members thinking about the impact of the reduced timetable for production of the Statement of Accounts from 2017/18. The changes to the deadlines are on page 2, whilst pages 3 to 6 highlight some areas where consideration is needed to meet the new timetable.
- 2.2 The second briefing is presented to Members as a "for information" item. It should be noted that it addresses wider issues affecting all local authorities and as such, some items (for example the Transport Infrastructure Assets) are of less significance for the Broads Authority.
- 2.3 The items of relevance to the Authority are:
 - Thought leadership – board effectiveness (page 5);
 - Financial reporting simplification agenda (page 7);
 - The Transparency code (Page 8) and
 - The key questions for the Audit Committee (page 9).

Background papers:	None
Author:	Emma Krelle
Date of report:	10 September 2015
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Accelerating your Financial Close Arrangements APPENDIX 2 - Ernst & Young Local Government Audit Committee Briefing (June 2015)



Accelerating your financial close arrangements

EY Think Piece

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Local government accounting, auditing and governance – preserving quality financial reporting in light of the new reporting timetable

Key questions for the Audit Committee

Find out more



Building a better
working world



Accounting, auditing and governance

Accelerating your financial close arrangements for the new 2017/18 deadline, commencing the pathway to success

In our November 2014 briefing, we told you about the Government’s consultation on the Local Audit Regulations associated with the Local Audit and Accountability Act. This consultation has now concluded, and on the 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made (signed by the Minister) under the Local Audit and Accountability Act 2014 on 12 February 2015.
www.legislation.gov.uk/ukxi/2015/234/contents/made

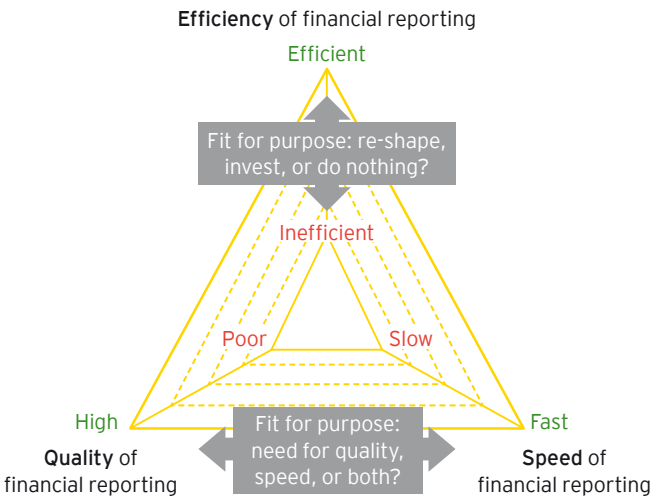
A key area of the regulations is that from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of **31 May** and an audit deadline of **31 July**. These changes provide challenges for both the preparers and the auditors of the financial statements. The impact of the changes to the deadlines and their impact is shown in the table below.

	Current deadline	2017/18 deadline	Reduction in time
Preparation of draft financial statements, signed by s151 officer	30 June	31 May	30 days
Approval and publication of financial statements with audit opinion	30 September	31 July	62 days
Available audit time	92 days	61 days	31 days

The Government believes that this change will reduce the burden of the closure process, enabling finance staff to give more time to in-year financial management.

This is the first of a series of briefings we will produce during the transition to the new financial reporting timetable. This briefing draws on our experience of working with clients who have successfully closed their accounts early and had their audit opinions issued by the end of July. It also draws on discussions we have had with our clients at our recent Public Sector Accountants workshops and will highlight early areas of consideration that you can begin to think about. We will set out areas for consideration in how we can work together with you to meet the revised deadline for 2017/18 or sooner, as we think a trial run and review of the process in 2016/17, would pave the way for a successful outcome once the regulations are introduced formally a year later.

The second briefing, which will follow in early summer, will provide a more detailed analysis of how ‘fit for purpose’ your financial reporting function is, and how you balance the speed of financial reporting, against the quality of financial reporting.





Accounting, auditing and governance

The economic downturn, the impact of austerity on public sector funding levels, the increased demand for regulatory compliance, greater transparency over the use of public funds, and now a faster reporting timetable is making the task of delivering on-time, high quality financial and non-financial information ever more challenging, for practitioners and auditors.

The good news is that with some planning, communication and joint working, those deadlines are highly attainable – sixteen principal local government bodies received an unqualified audit opinion by 31 July 2014 and published their audited accounts promptly – as reported in the Audit Commission's report – 'Auditing the Accounts 2013/14: Local Government Bodies.' The Audit Commission notes that **'the timely presentation of audited accounts with an unqualified audit opinion is fundamental to good governance. It indicates that bodies have sound financial management arrangements and is the main way that they account for their use of taxpayer's money.'** Therefore, making the year-end closedown routine part of that overall financial management of the Council is crucial to achieving the deadline, not having it as a bolt on exercise for Month 13 with a specific set of autonomous deadlines.

The omens are good, as the majority of Councils are on the right trajectory having met the current reporting deadlines consistently for the last few years, the challenge now is upping the speed of that trajectory to achieve the faster deadlines.

Early considerations for the preparers of the accounts and their auditors

As with any 'project' the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements.

We appreciate that each client starts from a slightly different base position. Therefore, there is no one size fits all solution. However, there are areas where consideration can be given now:

- ▶ **Revisit the current project timetable.** Our clients who have been able to close early, place this success on the robustness of their project timetable and their understanding and management of bottlenecks and requirements for information from outside the finance team.

Understanding how your current project timetable, where the bottlenecks are, and the critical path of the tasks required to meet the new deadlines will shape the areas of financial reporting that need the most attention. The earlier this is done, the greater scope there is to smooth the process and develop the capacity to deliver the key tasks.

Working with your auditor, you can discuss and agree timings of the audit and build this into the overall plan, rather than run it as separate closedown and audit work-streams.



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- ▶ **An early in-year financial hard close.** A hard close provides the auditor with the opportunity to perform early substantive procedures, especially on the revenue side of the primary statements, and to 'bank' audit assurance early in the process, thereby saving time in the tighter latter period.

Typically auditors speak of a Month 9 hard close as being optimal in other sectors such as the NHS. But with Local Government responsibilities for setting Council Tax, authorities need to be mindful of their budget setting process and timetable. It may be that a Month 8 or Month 10 hard close would be better. What would work for your auditor? What are the barriers to doing an in-year hard close? Does your finance team have the capacity to do this?

Is it possible to bring forward the process of setting the budget, to allow a Month 8-10 hard close to happen, without reducing capacity for other key finance responsibilities? There are examples of Councils having completed the budget review and setting process by late October – subject to Member discussions and agreement before the end of November. This may be an enabler to performing a part-year hard close.

- ▶ **Format of your accounts.** Do you have any superfluous notes? How much detail do you provide? This is the quality aspect of financial reporting. Now is the time to streamline the content of your statements, and remove any notes that are not required (on the basis of materiality), and review accounting policies in light of those note changes.

In December 2013, CIPFA issued 'Financial Statements: A Good Practice Guide for Local Authorities' which included a chapter around materiality and clutter. This report highlighted two types of clutter identified by the Financial Reporting Council in their report 'Cutting Clutter':

- ▶ Immaterial disclosure that inhibit the ability to identify and understand relevant information
- ▶ Explanatory foreword information that remains unchanged from year to year

Remember as the preparer of the statements, you must determine your own materiality level for inclusion of items in the accounts and this level may be different to that of your auditor.

It is, as is a common theme here, appropriate to discuss what the auditor would consider materiality to be, so you can take an informed view. In addition, discuss any amendments to your accounts template with them prior to rationalising it, so they can begin to build an expectation of the year end position.

- ▶ **Review your approach to estimates.** Estimating is a valid way of closing down certain aspects of your accounts early e.g., year-end accruals, holiday pay accruals, IAS 19 Pension liabilities and deductions. Your auditor will be interested in the robustness of the methodology for estimation, and the impact of estimation uncertainty. For example, you may wish to review your approach to accruals and set a revised upper limit, under



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which you would not accrue. In the next two years, you could monitor post year-end payments and demonstrate that the totality of expenditure below the accrual limit is not material, thereby demonstrating that your approach is valid and not unreasonable.

- ▶ **Review your year-end journal process.** Do your year-end journals actually have to be done at the year end? For example depreciation, this charge is usually put through at the year end. But is there anything stopping it being a Month 1 transaction? The overall asset base upon which the charge is based, is known in April and can be adjusted for any prior year audit amendments early. It will only change if there are significant additions, disposals, revaluations or impairments to that asset base. But even these changes may not lead to a material change in the depreciation charge, given the way in which the annual depreciation charge is derived. A year-end reconciliation of the basis of the charge to any asset base adjustments in the year will justify the charge to the auditor, or require a simple amendment within the financial statements.
- ▶ **Third Party information.** The project timetable, above, should include the receipt of information from third parties. Ensuring that the third parties are on timetable and aware of the revised deadlines is key. Third party information includes the Actuary of the LG Pension fund, valuation information on the asset base, information from wholly owned companies for Group consolidation and Business Rate appeal information from the Valuation Office.

- ▶ **Manage Members' expectations.** A 31 July audit deadline will mean rescheduling your Audit Committee (or equivalent body who perform the duties of 'those charged with governance') before the deadline.

It may also be appropriate to move away from showing members the draft accounts in May (June as it currently is). The 2009 Account and Audit regulations did not require Member 'approval' of the draft accounts as was previously the case, but many Councils still take a full draft set of accounts to an Audit Committee.

It may be better to take the accounting policies to an Audit Committee during the year for approval (as required annually) and build a finance reporting culture that will demonstrate to members what the expected outturn position will be, highlighting any key transactions (for example big asset transactions in or out, revaluations, provisions).

If this happens throughout the financial year and Audit Committee cycle, then Members will know what to expect. A final year-end paper with the accounts for approval in July will join the information together and allow Members to have the right information to be able to approve the financial statements. In addition, those accounts would have been subject to audit, and the auditor's report will be available to read alongside the financial statements.



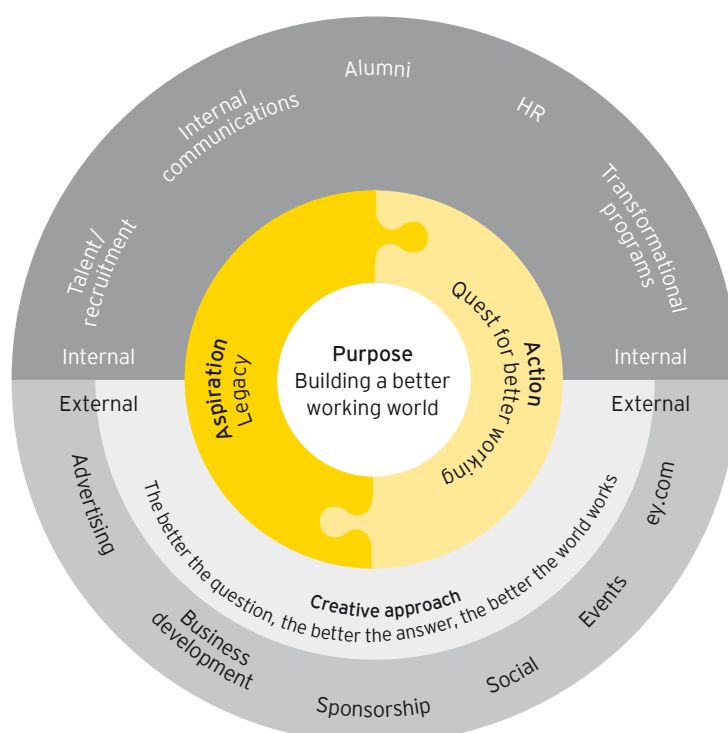
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- ▶ **Review the operation of your ledger system.** Whilst everyone uses a ledger system, not everyone derives their financial statements straight from it. There are many instances of off-ledger spreadsheets, and ad-hoc systems being bolted on to create the accounts.

To auditors, this is inefficient and requires additional audit procedures over the off-ledger work. Councils should review their ledger system and its capabilities. Is your chart of accounts correct? Can your current system do more to support the preparation of the accounts? Can you minimise the extent of off-ledger work that is required to prepare the financial statements?

- ▶ **How fit for purpose is your current financial reporting system?**

This would allow us to make better use of data analytics – our tool which analyses all data in a certain population (i.e., payroll, ledger, Accounts Payable) rather than sample test that population. Analytics is a powerful tool, giving assurance across the whole population data set, quickly pulling out anomalies for further review. However, the power of analytics is dependent upon the data set going into the tool. This requires us to work with you, so we get the data in the way which is quick and easy for us to use, without manipulation or filtering.





Questions for Audit Committees

Our think piece highlights a number of questions that are pertinent to the preparers of your Council's financial statements. We set out below, some high level questions, which Audit Committees should consider and gain assurance over, in preparation for the earlier financial statement deadlines.

1. How reliable are your internal financial reporting processes and how aligned are they to delivering external facing financial statements, as opposed to delivering internal management reporting requirements?
2. How assured are you about your overall control environment currently and how robust are those arrangements ahead of preparing for the new accelerated reporting deadlines?
3. Have you considered the impact of new financial reporting requirements¹ and complexities which will impact on the same timeline?

¹Examples of new financial reporting requirements for consideration; the extension of the accounting for Infrastructure assets, changes to the CIPFA Code of Practice on Local Authority Accounting; and changes to service delivery models which leads to the requirement for group accounts.

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Local government audit committee briefing

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Find out more

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.



Government and economic news

EY Item Club Spring 2015 Forecast

In its latest quarterly forecast the EY Item Club forecasts strong economic performance with GDP growth of 2.8% this year, rising to 3% in 2016. The Consumer Prices Index (CPI) Inflation is expected to average 0.1% for 2015, but expected to rise above 1% this winter, paving the way for possible base rate rises in spring 2016. Consumption is forecast to grow by 2.8% this year (mainly due to a real income increase of 3.7%) and strong growth over the medium term supported by buoyant incomes rather than borrowing. An additional driver for growth is the fall in the Euro against the pound. Business surveys indicate that the effect of this exchange rate move on export competitiveness has been countered by the strength of the European market.

The report highlights that its forecasts are far more positive than the Office of Budget Responsibility (OBR) which it accepts needs to be cautious, seeing room for expansion in the consumer and housing markets without significant adverse effect on household debt or house prices. Additionally long term output growth prospects are better than indicated by OBR projections. The forecast suggests that the outlook for the government post-election will be more positive than official statistics.

Manchester devolution

On the 27 February 2015, a memorandum of understanding was signed between Greater Manchester's 10 local authorities, 12 NHS clinical commissioning groups and 15 NHS providers, as well as NHS England chief executive Simon Stevens and Chancellor George Osborne. This memorandum builds on the devolution

settlement for Manchester which was signed in November 2014, and proposed the devolution of powers to Greater Manchester in various areas including transport, planning and housing.

NHS England worked with the Manchester bodies to develop a plan for further joined up and integrated health and social care. The next stage will be the development of a roadmap, followed by production of a business plan. Due for publication in October, the outline business plan will outline the scope for possible savings through integration; as well as setting out the capital investment that will be needed to deliver the proposed shift from acute care to the primary and community sectors.

Under the plan, a new joint decision-making process for all £6bn of health and social care spending will be developed. A Greater Manchester Strategic Health and Social Care Partnership Board will be set up, and will oversee the development of the health and care system. A joint commissioning board will be responsible for financial plans and budget proposals for the sizeable budget, which represents approximately a quarter of all public spending in the region.

George Osborne has said that this reform was "exactly what we want to see more of in our health care."

Greater Manchester Combined Authority chair Lord Peter Smith confirmed his commitment to working with NHS colleagues in the city: "By ensuring that decisions about health for Greater Manchester are taken in Greater Manchester, we can ensure we have a system specifically tailored to the needs of people in our area."



Government and economic news

This radical change follows on from the Community Budget programme, of which Manchester was one of the four pilots. This programme was intended to pool funds to improve the effectiveness of public spending across the city's 10 councils. An analysis from EY commissioned by the Local Government Association concluded that more than £4bn could be saved every year if all areas adopted a Community Budget approach and were able to cut the unnecessary waste, duplication and red tape. Of these, it was estimated 80% would come from the budgets of central government departments and agencies.

DWP Welfare Reforms

The NAO has produced a report which considers the changes made by the Department for Work & Pensions (DWP) over the past five years and its mixed record of implementation. The report is intended to provide the DWP and other readers with an opportunity to learn from experience. They have also produced a briefing with more general relevance – *'Lessons for major service transformation'* which draws out broader principles from their DWP review.

Eleven lessons are identified which may be helpful for authorities seeking to transform services and processes in the face of budget constraints:

- ▶ Transformation programmes raise the greatest risks of failure
- ▶ Set realistic goals and be honest about what really matters
- ▶ Policy development must take account of implementation
- ▶ Don't be tempted to score benefits early
- ▶ Do identify tangible short-term gains
- ▶ Recognise the (senior) organisational cost of transformation
- ▶ Don't underestimate what you can learn from engagement
- ▶ Recognise the value of learning and market development
- ▶ Do anticipate the need to make changes in live running
- ▶ Recognise the opportunities and limits of technology
- ▶ Set out clear decision-making and challenge



Accounting, auditing and governance

Transport Infrastructure Assets

What are transport infrastructure assets (TIA) and why are they relevant to highway and non-highway authorities?

The *Code of Practice on Transport Infrastructure Assets (TIA Code)* was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. The TIA Code classified TIA as:

- ▶ Carriageways
- ▶ Footways and Cycleways
- ▶ Structures
- ▶ Street Lighting
- ▶ Traffic Management Systems
- ▶ Street Furniture

The TIA Code also sought to provide the basis for improved financial information by setting out a move to valuation of such assets on a Depreciated Replacement Cost (DRC) basis, which in simple terms is the difference between the current costs of replacing an asset less an allowance (depreciation) for the age of the current asset.

Local Government continued to use depreciated historic cost (DHC) as the valuation approach for infrastructure assets when the *Code of Practice on Local Authority Accounts in the United Kingdom (Accounting Code)* moved to an IFRS basis effective from 1 April 2010. Thus one of the key elements for full implementation of the TIA Code, valuing assets using DRC, was not in place within Local Government.

Following consultations over a number of years, CIPFA initially announced through the 2014/15 Accounting Code, and confirmed in the 2015/16 Accounting Code, that TIA within local government

will be valued at DRC with effect from 1 April 2016. It has been estimated centrally that this will add some £200bn to the net worth of local government balance sheets. Our work to date with clients suggests that this is a significant underestimate. At an individual client level the inclusion of TIA, at this different valuation basis, will transform the balance sheet.

Although the above will apply to all highway authorities there will also be a number of non-highway authorities who hold material TIA under the new valuation basis. In particular, cycleways, structures and roads on industrial estates may lead to material levels of TIA at non-highway authorities. It is important to note that for those non-highway authorities the full requirements of the TIA Code will have to be met.

What are the implications?

This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems design and operation. Early engagement and project planning were highlighted as core requirements in *LAAP BULLETIN 100: Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17*, to the effective delivery of this change within the tight timetable.

The change is to be applied retrospectively and thus will require valuations as at 1 April 2015 and comparative values for 2015/16. CIPFA issued specific Guidance Notes on TIA in May 2015 and have identified a number of proposed changes to the Accounting Code for 2016/17 that will be consulted upon over the summer.

Close working through the implementation period with external auditors is highlighted as being pivotal to successful implementation. We have identified a number of areas that are crucial to the delivery of this project and will be discussing these with officers over the coming months.



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The additional audit work involved in this area was recognised by the Audit Commission in their 2015/16 fee consultation. It did not however, identify a fee; leaving that to local negotiation due to the scale of work required. Following local fee discussions we will be looking to have carried out initial detailed work for all audit clients by the end of the calendar year. This work could range from confirming with non-highway authorities that they do not have material TIAs and therefore do not have to implement the changes, to major systems reviews at highway authorities.

At all authorities with material TIA, further work will be required to address the results of the changes proposed in CIPFA's consultation on the 2016/17 Accounting Code. Our intention is to have reviewed the remaining areas of implementation before the end of the 2015/16 financial year at all audit clients.

Working together

In addition to the work undertaken locally, following requests from clients, we will be running specific transport infrastructure assets workshops for officers of highway authorities across the country in July and August at the following venues:

- ▶ 28 July 2015 – London Becket House
- ▶ 29 July 2015 – EY Birmingham Office
- ▶ 5 August 2015 – London Becket House
- ▶ 6 August 2015 – EY Newcastle Office
- ▶ 13 August 2015 – EY Manchester Office
- ▶ 14 August 2015 – London MLP

Formal invitations will be issued in early June. If you have any questions regarding these events please contact Neil Gibson on ngibson@uk.ey.com.

For non-highway authorities with material TIA we will, in addition to our local work, facilitate contact between clients and, if there is demand, arrange similar workshops for them.

As with all major changes, early engagement with your local audit team will assist in a smooth implementation of the changes.

Thought leadership – board effectiveness

EY has worked with The Investment Association to produce a thought leadership report 'Board effectiveness – continuing the journey'. The report is based on debates on board effectiveness held as a series of individual meetings and roundtables with leading chairmen, board directors and senior investors. Whilst the report recognises that all boards are different, it aims to identify leading practice and point to new ideas for boards to improve and demonstrate their effectiveness. It addresses board effectiveness across seven themes:

- ▶ Role of the chairman
- ▶ The role of non-executive directors (NEDs)
- ▶ Progress on diversity
- ▶ Board succession and the work of the nomination committee
- ▶ The purpose and impact of board evaluations
- ▶ Information flows to the board
- ▶ The role of investors

To encourage discussion between management, NEDs and stakeholders, the report includes a checklist of questions under each of the seven themes.



Accounting, auditing and governance

2015-16 work programme and scales of fees

Public Sector Audit Appointments Ltd (PSAA) has now confirmed the work programme and scale fees for the audit of the accounts for 2015-16 for local government, fire, police and health bodies.

For most local government, fire, and police bodies scale fees show a reduction of 25% to the fees applicable for 2014-15. This does not, however, apply to pension fund audits (where fee pressures have been rising due to the increasing complexity of the funds audited) or to local government audited bodies with 2014/15 scale audit fees below £20,000.

The current expectation is that these fee reductions will apply until the end of the audit contracts (subject to annual review).

The current contracts with audit suppliers run until 2017, with a possible extension for up to three years. Under its responsibility to manage the audit contracts, PSAA is required to consult on and set fees for 2016-17.

In addition to the core accounts audit work, auditors have a responsibility to satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources, and in some cases certification of claims. Fees to cover the costs of any special investigations, (e.g., arising from disclosures under the Public Interest Disclosure Act 1998) are charged as a variation to the scale fee.

The scale audit fees for individual bodies and the work programme are published on the PSAA website, with the aim of supporting transparency and helping audited bodies compare their fees with those of similar bodies. They are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

It is a matter for the auditor to decide the work necessary to complete the audit. Where an auditor considers more or less work

is required than is represented in the scale fee, they are required under the audit contracts to seek approval from PSAA for a variation to the scale fee, and to agree the amount of this variation with the audited body. PSAA also consider the reasonableness of the explanations provided before agreeing to any variation to the scale fee.

Whole of Government Accounts: 2013-2014

The Comptroller and Auditor General, Amyas Morse, released his audit report on the 2013/14 Whole of Government Accounts at the end of March. This is the fifth year that the Treasury has produced the Whole of Government Accounts, which is intended to show in a single document the overall financial position of the UK public sector by consolidating the financial activities of more than 5,400 organisations across the public sector into a single set of audited accounts. The bodies that are consolidated include central and local government bodies, as well as other public corporations including the Bank of England.

The audit opinion has again been qualified this year on six counts:

- ▶ The application of the WGA accounting boundary
- ▶ Inconsistencies in the underlying accounting treatments within the WGA
- ▶ Disagreement on the accounting treatment of 3G/4G mobile licences
- ▶ Lack of evidence in support of the completeness and valuation of school assets
- ▶ Underlying material qualifications of the Department for Education and Ministry of Defence accounts
- ▶ Inaccuracies in the elimination of intragroup transactions and balances



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Overall, Amyas Morse has commended the progress made by HM Treasury, whilst noting areas for improvement:

“We are strongly supportive of the way HM Treasury is moving forward with the Whole of Government Accounts project. The Department is improving the content of the WGA and the document has been produced faster than ever. This is welcome and represents a significant step forward for the WGA. The Department is also taking steps to make sure that more information is being given to taxpayers on how government spends their money and longer terms risks on the balance sheet are being highlighted. However, there are opportunities to exploit the WGA’s potential more fully and to improve the WGA to enable me to remove my qualifications. The Treasury also needs to work with the bodies that provide data to improve the timeliness and accuracy of the information that it receives. Furthermore, better analysis by the Department of trends in government’s assets and liabilities will help to demonstrate the full financial impact of changes in the delivery of public service in the next Parliament.”

Financial reporting simplification agenda

The need to simplify and streamline local government financial statements has been a topic of discussion since the introduction of International Financial Reporting Standards (IFRS) in 2010/11. In December 2013 CIPFA issued *Financial Statements: A Good Practice Guide for Local Authorities* which includes a chapter around materiality and clutter. The report highlighted the negative impact of two types of clutter identified by the Financial Reporting Council in their report *Cutting Clutter*, namely:

- ▶ Immaterial disclosures that inhibit the reader’s ability to identify and interpret relevant information
- ▶ Explanatory information that remains unchanged from year to year

Since the publication of the good practice guide, CIPFA carried out a specific consultation on the potential for simplifying and streamlining local authority accounts during the summer of 2014. As a result greater emphasis was placed in the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and 2015/16* on removing immaterial disclosures. CIPFA also issued a second edition of its report *How to Tell the Story: Local Authority Financial Statements, including this within the Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners 2014/15*.

CIPFA/LASAAC and CIPFA remain committed to enable the financial reporting of local government bodies to relate a more streamlined story that is understandable to the varied users of their financial statements. It has been stated that the consultations on the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* will include more fundamental changes.

Key proposals are expected to include a:

- ▶ New funding statement that more clearly reconciles the accounting and funding regimes
- ▶ Refocussing of the Comprehensive Income and Expenditure Statement
- ▶ Revision of the existing Movement in Reserves Statement

The progress on these changes will impact on the detailed approach that local government bodies make to achieve the earlier closedown requirements from 2018. Thus that work should be fully integrated with the streamlining agenda.

EY has also produced a think piece on earlier closedown; if you have not already received a copy, please contact your audit team for more information.



Regulation news

The Transparency Code

The Local Government Transparency Code 2014, intended to increase democratic accountability by giving people the tools and information they need to enable them to contribute to the local decision making process, was published by DCLG on 3 October 2014.

It is governed by three main principles:

- ▶ Demand led – new technology should support transparency and accountability. Public bodies should release data in a way that allows the public and other interested parties to use it
- ▶ Open – availability of public data should be promoted and publicised. Presentation should be helpful and accessible
- ▶ Timely – data should be made public as soon as possible following production

The Code is a statutory requirement for local government bodies; however, it does not apply to Police and Crime Commissioners. It sets out the minimum data and information that all local authorities must publish; the frequency at which it should be published and how it should be published.

One of the mandatory disclosures contained in the Code is the requirement to publish information on senior managers' salaries. The Accounts and Audit (England) Regulations (2011) and section 3.4 of the Accounting Code set out the disclosure requirements in relation to senior management remuneration required for the financial statements.



Key questions for the audit committee

What questions should the Audit Committee be asking itself?

- ▶ Have we fully considered opportunities for integration with other local services and whether this could offer improvements to service delivery as well as cost savings?
- ▶ Have we reviewed the NAO briefing 'Lessons for major service transformation' and is there anything that could be taken from it to increase the likelihood of successful implementation of projects?
- ▶ Are we as an organisation fully aware of the implication of future accounting requirements for TIA and do we have a plan in place to meet these?
- ▶ Have we considered the EY report 'Board effectiveness – continuing the journey' and whether it can support the improvement and effectiveness of our Committee?
- ▶ Are we aware of the 2015-16 scale fee/work programme and confident that arrangements ensure that accounts provided for audit are materially correct and fully supported, and that it has sufficient resources to support the audit process?
- ▶ What steps are we taking to plan for the earlier financial statement closedown arrangements for 2017/18?
- ▶ Have we critically reviewed the accounts and identified areas where they can be streamlined?
- ▶ Have we identified any disclosures or other areas which could be prepared early?
- ▶ Is resourcing within finance areas sufficient? Are there any areas which will need additional support?
- ▶ Do we have plans in place to start producing interim financial statements at month nine if this is something that we do not already do?
- ▶ Do we engage in early discussions with our auditors over working paper requirements and any proposed amendments to the accounts compared to the prior year?
- ▶ Do we engage in early discussions with our auditors over key areas of judgement and technical accounting areas well before closedown?
- ▶ Are we aware of the disclosure requirements contained in the transparency code and are we actively monitoring compliance?
- ▶ Have we engaged with our local communities to identify the areas where there is an appetite for more data to be shared?
- ▶ Do we publicise the access that is available to public data?
- ▶ Is the data that we make publicly available easily accessible both in terms of its location and its format?



Find out more

EY Item Club spring 2015 forecast

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Manchester devolution

For a copy of the Memorandum of Understanding for Greater Manchester Health and Social Care devolution, see http://www.agma.gov.uk/cms_media/files/mou.pdf

DWP Welfare Reforms

For copies of the NAO's reports, see <http://www.nao.org.uk/wp-content/uploads/2015/05/Welfare-reform-executive-summary.pdf> and http://www.nao.org.uk/wp-content/uploads/2015/05/Briefing_Lessons_for_major_service_transformation.pdf

Transport Infrastructure Assets

For more information about Transport Infrastructure Assets, please contact Neil Gibson for details of how to attend one of the EY courses.

Thought leadership – board effectiveness

The report can be found at [http://www.ey.com/Publication/vwLUAssets/EY-UK-board-effectiveness-report/\\$FILE/EY-UK-board-effectiveness-report.pdf](http://www.ey.com/Publication/vwLUAssets/EY-UK-board-effectiveness-report/$FILE/EY-UK-board-effectiveness-report.pdf)

2015-16 work programme and scales of fees

Details of the 2015-16 work programme and scales of fees are at <http://www.psaa.co.uk/wp-content/uploads/2015/03/Work-programme-and-scales-of-fees-2015-16-Local-Gov-FINAL-250215.pdf>

Whole of Government Accounts: 2013-14

For the Certificate and Report of the Comptroller and Auditor General on the 2013-14 Whole of Government Accounts, see <http://www.nao.org.uk/wp-content/uploads/2015/03/Whole-government-account-2013-14.pdf>

Financial reporting simplification

For more information about the Financial reporting simplification agenda, please contact your local audit team.

The Transparency Code

For a copy of the new transparency code, see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360711/Local_Government_Transparency_Code_2014.pdf

Note

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