BUSINESS ASSURANCE PROGRESS REPORT – MARCH TO JUNE 2015

1 Purpose

1.1 To receive the Business Assurance Services Progress Report of activity undertaken since March 2015.

2 Recommendations

2.1 The committee is recommended to note the progress report at Appendix A

3 Supporting Information

3.1 This report provides an update on the progress made against the 2015/16 Assurance Plan. Appendix A includes information on:

- Summary of assurance reviews completed or in progress
- Overdue Audit Recommendations
- Other significant pieces of work completed
- Service Assurance Results for 14/15
- EY briefing note to audit committees

4. Reasons for Recommendations

4.1 Ensuring a proper and effective flow of information to Audit Committee Members enables them to perform their role effectively and is an essential element of the corporate governance arrangements at the council.

5. Resource Implications

5.1 There are no resource implications to report.

Contact Officer: Evelyn Kaluza, Business Assurance Manager
01296 585549

Background papers: none

Business Assurance Services

Assurance Progress Report

July 2015

Contents

1. Assurance reviews completed since the last progress report

Assurance Reviews

No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
	Data Transparency Code		14/15 Oyster Travel Cards
			14/15 Payroll
			14/15 Car Parking income
			14/15 Treasury Management
			15/16 Depot Fuel Management

Where the assessment is “limited” a summary of the findings can be found in Appendix 2.

Project Delivery Reviews

Red	Amber/Red	Amber	Amber/Green	Green
			Right Here Right Now	

The list of the assurance and project delivery ratings definitions are shown in Appendix 1

2. Follow up Work

New Finance Software

The new finance system TechOne went live on 1 June 2015 (2 months after the planned go live). The main internal control changes implemented that can be demonstrated as working are the procure to pay process and to a limited extent the contract payment process. (These will be subject to detailed testing in October 2015)

There are still a number of outstanding control issues which the Finance Team have not yet been able to demonstrate are working in the system to the satisfaction of Business Assurance.

The list has been reviewed by the programme board on 14 July 2015 and now has some dates by which the improvements will be completed by. **See Appendix 4.**

Without these basic controls in place and operating it could result in a significant amount of extra testing by both Business Assurance and External Audit to provide assurances that determine the audit opinion over the statement of accounts for 15/16.

3. Assurance Plan Work in progress

The following areas are in progress from the Assurance Plan

Assurance Plan Area	Type of Assurance	Progress
14/15 Policy Compliance Software	Advisory	Contract for software agreed and project implementation started. Expected to go live in September 2015.
15/16 Section 106 agreements	Assurance	The field work is complete and the draft report is being written. Our target for the finalised report is the end of July 15.
15/16 Taxi Licensing	Assurance	Terms of Reference have been issued and the fieldwork has started. The target date for completion of this review is mid-August.
15/16 Conference Centre Income	Assurance	Terms of Reference have been issued and the fieldwork has started. The target date for completion of this review is mid-August.

4. Service Risk Assurance 14/15

A summary of the results of the service risk assurance process for 14/15 are attached at Appendix 3. These results are used to identify areas of weakness to be report in the Annual Governance Statement.
Business continuity and information security have been identified as showing a number of “amber” ratings from the self assessment which need to be followed up.

4. Overdue Recommendations and Tracker

Appendix 4 shows the recommendations which have been outstanding over six months.

5. Business Assurance Customer Feedback

The following table shows the results of the customer feedback surveys for the 14/15 reviews. These are reported as part of the annual review of effectiveness of internal audit in the Annual Business Assurance Manager's Report.

		(Average Score 1-5) 4 = Good
BA Staff Performance		
1.1	Professionalism	4.625
1.2	Positive Attitude	4.625
1.3	Unbiased and objective	4.625
1.4	Ability to establish positive rapport	4.375
1.5	Knowledge of the areas being reviewed	4

Conduct of Reviews	**% Yes**
2.1 Timing of the review was appropriate	87.5%
2.2 Review objectives and terms of reference were discussed prior to the start of the review	100.0%
2.3 Opportunity was given to change/comment of the review ToR	100.0%
2.4 Review focused on key areas of risk	100.0%
2.5 Any management concerns or perspectives were adequately considered during the review	100.0%
2.6 BAS staff take care to minimise disruption to operations	100.0%
2.7 BAS staff discuss issues with managers as they arise	100.0%

Reporting		
1.1	The report was well written and easily understood	100.0%
1.2	The report was factually correct	100.0%
1.3	Conclusions were appropriate and supported by adequate evidence	100.0%
1.4	Recommendations were constructive, practical and cost effective	100.0%

1.5 Responses by management to issues raised are appropriately reflected in the report	100.0%

6. Response to EY Breifing for Audit Committees

Each quarter Ernst and Young produce a briefing note aimed at Local Government audit committees (See Appendix 5). At the back of the briefing are a set of questions which the Audit Committee should ask of officers. (Page 9 of Briefing note and summarised below)

What questions should the Audit Committee be asking itself?

Q: 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?

A: The Chief executive is monitoring the developments in Manchester and other areas where there are combined authority proposals. AVDC is pursuing a unitary model.

Q: 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?

A Report to be circulated to Audit Committee and Corporate Board for discussion at major projects group and other transformational programmes

Q: 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?

A: TIA is not relevant to AVDC. It predominantly impacts on highways authorities.

Q: Have we considered the EY report 'Board effectiveness – continuing the journey' and whether it can support the improvement and effectiveness of our Committee?

A: Report to be circulated to the Audit Committee for information

Q: 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?

A: Information provided by external audit.

Q: What steps are we taking to plan for the earlier financial statement closedown arrangements for 2017/18?

A: This question was raised in the last briefing and a response was given in the progress report in March 2015.

Q: Are we aware of the disclosure requirements contained in the transparency code and are we actively monitoring compliance?

Yes, Business Assurance have conducted a review against compliance with the code. This has been reported to the committee.

Q: Have we engaged with our local communities to identify the areas where there is an appetite for more data to be shared?

A: Yes partly through engagement with residents regarding the new website

Q: Do we publicise the access that is available to public data?

Will be part of launch of new website

Q: Is the data that we make publicly available easily accessible both in terms of its location and its format?

A: Where data has been published it is accessible but further work needed to ensure it is in the right format in every case

Assurance Definitions

Substantial	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. As a guide there are a few low risk / priority actions arising from the review.
Reasonable	Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low. As a guide there are mostly low risks and a few medium risk/priority actions arising from the review.
Limited	Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high. As a guide there are mostly medium and a few high risk / priority actions arising from the review.
None	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of medium and high risks / priority actions arising from the review.

PROJECT DELIVERY CONFIDENCE RATING

Each project health check will result in an assessment of delivery confidence.

Delivery Confidence is the confidence in a project's ability to deliver its aims and objectives:

- Within the timescales
- Within the budget
- To the quality requirements including delivery of benefits, both financial and non-financial.

The assessment of Delivery Confidence reflects:

- Specific issues that threaten delivery to time, cost and quality, and jeopardise the delivery of benefits
- The Business Assurance Officer's professional judgement of the likelihood of the project succeeding even though there may be no definitively clear evidence either way
- The resilience of the project to overcome identified shortcomings or threats.

RAG rating	**Criteria description**
Green	**Successful delivery of the project to time, cost and quality appears highly likely** and there are no major outstanding issues that at this stage appear to threaten delivery significantly.
Amber/Green	**Successful delivery appears probable**; however, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.
Amber	**Successful delivery appears feasible** but significant issues already exist, requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost/schedule overrun.
Amber/Red	**Successful delivery of the project is in doubt**, with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible.
Red	**Successful delivery of the project appears to be unachievable.** There are major issues on project definition, schedule, budget, quality and/or benefits delivery, which at this stage do not appear to be manageable or resolvable. The project may need re-scoping and/or its overall viability reassessed.

Assurance Review Summary

Data Transparency Code – LIMITED ASSURANCE

Risk 1 - Non- compliance with legislation could result in the Council being fined and also the subsequent bad press.

FINDING inc. the associated Risk / Issue	RECOMMENDATION	PRIORITY	MANAGEMENT RESPONSE	ACTION DATE
50% of the datasets are either not published or they are published but with out of date or insufficient information.	The areas of non compliance need to be addressed immediately and data uploaded onto the AVDC website.	High	Andrew Small (Director) – acknowledged the gaps and has instructed the relevant departments to get the data uploaded. The data on 'Assets' inparticular is more problematic due to the scale of it, but it is being worked on.	**By 30 June 2015**

The Transparency Code 2015 is not being complied with in 5 of the 10 areas. *See table below.* In our opinion the main reason for this non-compliance is a lack of a dedicated resource being made responsible for ensuring that the information is published and updated as required. Whilst most of the datasets appear to be straightforward to publish others require additional work. For example; 'Local Authority Assets' – this requires GIS data mapping and also data relating to building assets – so a cross departmental approach.

The Business Assurance Officer has based the opinion as to whether the code has been complied with by reviewing the Council's website and searching for the information, in the same way that the public or an organisation would search for it. Shaded = the dataset is not currently applicable to AVDC.

Dataset	Met	Not Met	Partially Met
Expenditure over £500	✓		
Procurement Cards			
Procurement Information	✓		
Local Authority Land & Property		✓	
Social Housing assets			
Grants to Community & Voluntary Sector	✓		
Organisation Chart / Snr. Salaries		✓	
Trade Union Facility Time		✓	
Pay Policy / Pay Multiples		✓	
Parking Trading Account		✓	
Parking Spaces (number of)	✓		
Fraud	✓		

Service Risk Assurance 2014/15

Background

In March 2014 the internal control self assessment was replaced by a new service risk assurance check. The new process was developed to address identified gaps in assurance for specialist areas such as Health and Safety, IT security, financial control and Safeguarding.

The service risk register process was no longer being consistently used as a tool for management as the requirement to monitor against the corporate plan or service targets dropped over the past few years.

The revised process was devised to take into account the key compliance risks as well as the service specific risks. The new process reflects the level of risk for each service against key areas. This in turn helps determine where further information is required on how specific risks are being managed.

An outline of the process is set out below.

Stage 1 – High Level Risk Assessment

Service assesses whether their risk potential is High, Medium or Low against key area.

Stage 2 – Detailed Risk Assurance Profile

For each area identified as High or Medium the risks for that specific area are discussed and controls that are in place are mapped. If there are any gaps these are identified and action is recorded.

Stage 3 – Specialist Review

The relevant specialist lead (eg Health & Safety) reviews the assurance documented and gives an opinion on whether in their view all the relevant risks have been identified.

Stage 4 – Overview for AGS

Business Assurance Services reviews overall assessment and reports any key weaknesses in Annual Governance Statement.

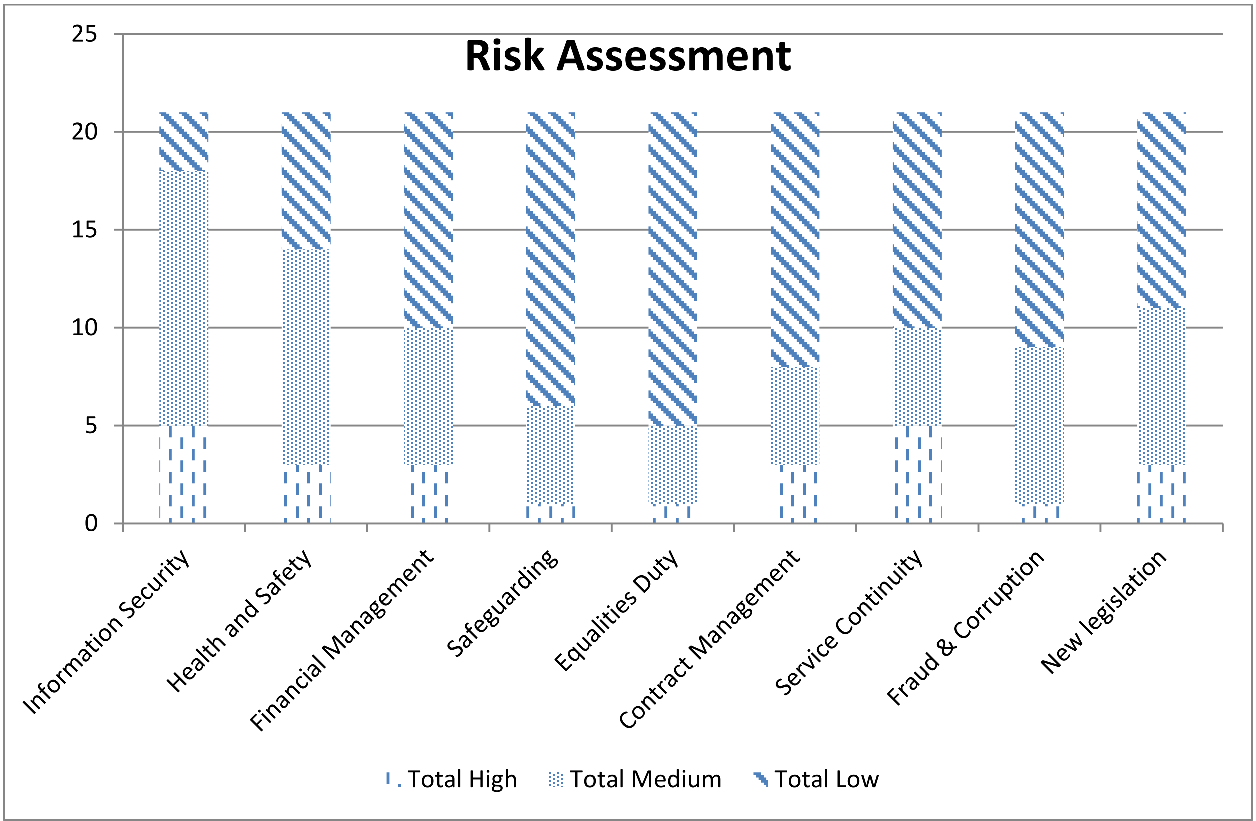
2014/15 Overview

The Service Risk Assurance process was undertaken with 21 services/teams. Due to a number of reorganisations it is not possible to make a direct comparison with last year.

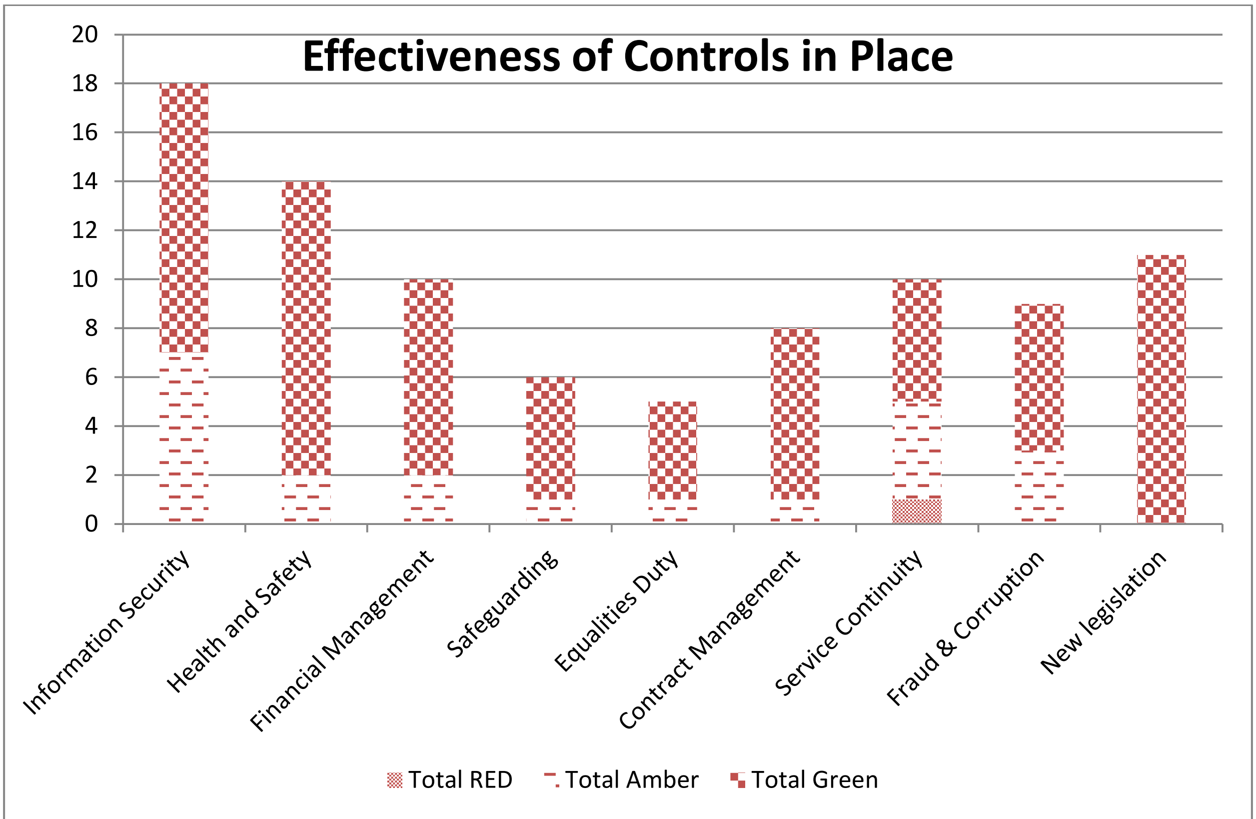
The process this year has been undertaken through a mixture of self completion and individual discussions with Managers. The discussions have been led by Business Assurance Services.

A full list of ratings can be found in appendix 1

The graph below shows a summary of the Risk Rating for all services/teams.



The graph below shows the assurance rating for all services.



The areas that are giving some cause for concern where there is high/medium risk and red/amber assurance are information security and service continuity.

Top Concerns for teams/services.

Teams/services were also asked to highlight up to five top concerns for their area for the first time this year. They were asked to rate these concerns using the same rating system used for corporate risks.

These concerns will be turned into action plans and form the basis of the risk profile to be reviewed in six months time.

Appendix 4 – Overdue Recommendations Tracker

Recommendation	Risk and Impact	Management Action agreed	Priority	Target date	P (Partial) N(not started)	Update management response as at March 2015
Network Drives Audit						
A more managed environment should be created and properly communicated by IT to facilitate joint-working and file-sharing across services.	Risk: Unmanaged data storage environment leads to noncompliance with AVDC Information Security Policies and Data Protection Act. Because of the volume of data that has built up over 10+ years on the AVDC-High Street drive information is difficult to search and much of it is likely to be obsolete. Impact: Financial cost of supporting the drive plus low-probability/high impact risks related to Data Protection Act compliance. (E.g. obsolete Shared Housing Register was secure in the sense that it was held on the network but it was not kept in compliance with the Data Protection Act principles because the data was no longer needed.)	A Sharepoint environment to replace the current 'shared area' will enable more and better sharing of information. This will need to be carefully managed as per project plan to be developed as a response to Rec 1 page 8.	High	1/5/2012	P	**Update from Alan Evans Head of IT 14/7/15** The One Drive module of the Office 365 system has been trialled for 4 months. The trial has revealed some operational issues and, of more concern, some security weaknesses that may be addressed in a future release. Central Government have recently approved the use of a product called "Box" and a report is being prepared comparing One Drive, "Box" and the Microsoft Sharepoint product. The expectation is that a decision will be taken later in the summer to implement one of these options and a project will commence in the Autumn.

Financial Controls Weaknesses

As at 14 July 2015 the following areas are still outstanding and the Finance Team have been unable to demonstrate through evidence that the new system has addressed the weaknesses identified in the old system.

Control Area of weakness in old system	Finance Manager Response 17th April 15 Position	Finance Manager Response July 15
Aged debtors reports that show where debts have instalment plans in place.	Still being addressed.	Still being addressed. But there is a screen that shows an aged debt position for a customer, so an enquiry on that customer will show you the aged debt position. **Action: Reports to be developed by 30 September 2015**
Management information monitored i.e. speed to pay suppliers.	This will be looked at once the system is up and running and we have time to develop the reports.	Same position as the 17 April. Still getting to grips with the basics. Too early to start looking at management information aspects. **Action: Reports to be developed by 30 Sept 2015**
Journal processing workflows – lack of clear authorisation processes and finance role in this.	Workflow will be part of TechOne.	Currently only Finance Section officers can process and authorise journals due to the workflow set up. Any journal request has to be approved by another officer. Journal requests now allow for evidence to be easily attached. **Action: Process to be reviewed by 30 Sept 2015**
Virements (moving / creating budgets) – Controls and authorisations over what financial regs regards as virements and who authorises what and the evidence behind these.	Still being addressed.	No virements have yet been done in the system and not going to be possible until end of Septemer. **Action: Process and rules to be in place by 30 September 2015.**

The following areas have been implemented but not subject to any detailed testing by Business Assurance – This is planned for September.

Control Area of weakness in old system	Finance Manager Response 14 July 15 Position
Applying VAT at potentially incorrect rates on debtor invoices.	VAT rules built in to most common products leaving some adhoc areas which are reviewed by Finance before approving.
Authorisation controls over BACS file release.	Authorisation process in place.
Lack of purchase order process – no evidence to support the purchase prior to invoices being received and therefore expenditure committed.	In order to order goods officers have to request a requisition that has to be approved by their manager or in cases of less than a £1,000 another user who has been assigned to Pool A. Once approved the PO can be sent out. Invoices will not be paid unless there is a PO number on the invoice. Still early days as pre 1 June invoices still coming through.
Lack of authorisation / control over setting up new suppliers.	Any new supplier has to be approved by Procurement. If a supplier does not exist then a new supplier request form has to be completed and attached to the requisition before it can be approved. At the moment all requests are being granted as they have been used previously within Aptos.
Control over the ability to alter supplier details i.e. bank account details.	We haven't had any requests at the moment but the procedure will be documented. New supplier details are attached to the workflow request.
Authorisation over debtors invoices and credit notes.	All debtor and credit note requests have to be approved by a manager before coming to Finance for review and posting.
Evidence of the authorisation for writing off debts.	Workflow will be part of TechOne. Items under £1,000 will go to Andrew. Items over £1,000 will go to cabinet and once approved a copy of the report will be attached to the debt and then either Andrew or myself will approve them in TechOne.
Budget Managers should be accountable for variances on their budgets and have to explain them. These should be automatically reported to senior management.	The first set of reports are being rolled out to managers. They are being shown what can be done. Hopefully, more bespoke reports will be written over time.
Monitoring and control over suspense accounts.	Bank suspense accounts are currently being monitored by the Finance Manager and procedure notes are being developed. The task will be handed over in the next couple of months.

Review over rolling forward balances.	This will done next April 2016

Local government audit committee briefing

Contents at a glance

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.

Building a better working world

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.

Accounting, auditing and governance

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

Accounting, auditing and governance

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

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

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ED None

1597390.indd (UK) 06/15. Artwork by Creative Services Group Design.

ey.com/uk