

# Audit Progress Report and Sector Update

West Midlands Combined Authority  
West Midlands ITA Pension Fund  
Year ending 31 March 2019

15 April 2019



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# Introduction



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This paper provides the Audit, Risk and Assurance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit, Risk and Assurance Committee ('ARAC') can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

## PSAA Contract Monitoring

West Midlands Combined Authority and the West Midlands ITA Pension Fund opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Progress at April 2019

## Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the both the Combined Authority's and the ITA Pension Fund's 2018/19 financial statements.

We have undertaken our interim fieldwork which has included:

- Updated review of the control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

Findings in these areas are reported to you on pages 6 to 10.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We have discussed our plans and timetable with officers and are well placed to meet this deadline.

The final accounts audit is due to begin on the 7 May and 20 May for the Combined Authority and ITA Pension Fund respectively, with findings reported to you in our Audit Findings Report by the deadline of July 2019.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". Note that this work applies to the authority only, and not the pension fund.

The guidance confirmed the overall criterion as: "*in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people*".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach was included in our Audit Plan. Findings to date are reported to you on pages 8 and 9.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

## Other areas

### Meetings

We met with the Interim Section 151 Officer in March as part of our ongoing liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Our Financial Reporting Workshop which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for accounts was attended by your Financial Accountant.

### Publications

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	August 2018	Complete
<b>2018/19 Deliverables</b>	<b>Planned Date</b>	<b>Status</b>
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's and Pension Fund's 2018-19 financial statements.	January 2019	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	This report refers
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the June Audit Committee.	June 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	June 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

# Results of Interim Audit Work – WMCA

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Authority's key financial systems to date. Under audit standards we are prevented from directing the work of internal audit and therefore cannot gain direct assurance from it; however we have not identified any significant weaknesses from our review of their work which impact upon our responsibilities.</p>	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Combined Authority's financial statements.
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Group accounts</b>	<p>The Authority is producing group accounts for the first time this year, due to it consolidating the accounts of Midland Metro Limited (MML). We have contacted the auditors of MML to explain the nature, time and extent of our involvement in their work. This has involved providing guidance on designing procedures, the type of work we expected to be performed, our timetable and expected deliverables from them, in order to give us assurance over the component's figures for the purposes of the group audit.</p>	We are expecting an acknowledgement from the component auditors of our "group instructions" by 1 April 2019.

# Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
<b>Understanding business processes</b>	<p>We have completed our documentation and understanding of those areas of the Authority's financial statements which encompass significant transactions. This has included consideration of:</p> <ul style="list-style-type: none"> <li>• General Ledger</li> <li>• Payroll</li> <li>• Treasury Management</li> <li>• Budgetary Control</li> <li>• Accounts Receivable</li> <li>• Accounts Payable</li> </ul> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Combined Authority in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>Note that we will conduct further walkthrough testing with regard to controls in place in respect of the valuation of the pension fund net liability, which we also identified to be a risk, when the actuary's report is received during our audit in May.</p>
<b>Early substantive testing</b>	<p><b>Ticketing</b> We have undertaken sample testing of transactions of ticketing income up to month 10 (ie up to and including January 2019). We will top up this testing during our audit in May. Furthermore we are discussing the proposed accounting treatment with your finance team to ensure that the requirements of the new accounting standard, IFRS 15 Revenue from Contracts with Customers, are complied with.</p> <p><b>Employee Remuneration</b> We have undertaken substantive analytical review of payroll up to month 9 (ie up to and including January 2019). We will top up this testing during our audit in May.</p> <p><b>Skeleton accounts</b> We were provided with "skeleton accounts" in February, containing the proposed structure for the group accounts, on which to provide comments and feedback.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach or findings which we need to bring to your attention.</p> <p>We provided our comments on the proposed skeleton accounts in February, and will look to see that they have been addressed when we are provided with the draft unaudited accounts in May.</p>

# Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
<p><b>Value for money</b></p>	<p>In our audit plan we identified the following matters, which we determined were worthy of further consideration and were there designated as 'significant risks':</p> <ul style="list-style-type: none"> <li>Preparedness of the Combined Authority to receive the West Midlands Fire Authority within its governance structure</li> </ul> <p>We note that the transfer of the Fire Service was originally proposed to be on 1 April 2019. Due to the delay in finalising the draft Order to put before Parliament this timing has now been moved into the 2019/10 financial year, with an exact timeline to be confirmed. This therefore removes this risk from being "significant" in respect of the impact on the VFM conclusion, as our reasoning for including it as such was to ensure that arrangements were in place to ensure that the transfer happened smoothly.</p> <p>Despite the delay, it is important to note that from our review of relevant Board and Combined Authority papers and regular discussions with management and key officers, we have identified no evidence that is indicative of inadequate arrangements being in place at the Combined Authority in relation to this risk.</p> <ul style="list-style-type: none"> <li>Developing Capacity and Capability</li> </ul> <p>Subsequent to our initial risk assessment being undertaken and capacity and capability being identified as a significant risk, internal audit undertook a review of the Authority's Workforce Planning Arrangements, the outcome of which was presented to ARAC in January 2019 and gave reasonable assurance.</p> <p>In terms of future needs, consideration of current workforce and achievement of deliverables is carried out as part of the business planning process. The exercise for 2019/20 was carried out just before Christmas and an implicit part of this process is to consider resources. Interestingly, a number of these business plans (particularly those within Corporate Services) identify capacity as a particular risk to delivering their objectives.</p> <p>We are satisfied from the work that we have done to date in this area that:</p> <ul style="list-style-type: none"> <li>through the HR dashboard,</li> <li>measurement of performance,</li> <li>analysis of skills gaps, and</li> <li>the review of responses to the staff survey,</li> </ul> <p>that there is no evidence of inadequate arrangements being in place at the Combined Authority in relation to this risk. However, this work is still ongoing, and we will report in further detail as part of our Audit Findings Report.</p>	<p>Based on the work done to date in relation to the two significant risks identified in our audit plan, we would anticipate providing an unqualified VFM conclusion.</p> <p>However, we note from our review of recent Board papers, and discussion with officers, that there continues to be a funding gap in the investment programme, which will crystallise in 2020 unless a way of bridging the gap is identified.</p> <p>Additionally, we are aware that an approval was granted at the March Board to approve the additional costs to the Wednesbury to Brierly Hill extension, which had increased to £449.5m (from £407m), with the extra costs to be funded through the WMCA. The largest variance between assumed costs in the Outline Business Case and the Full Business Case is £40.7m as a result of an "improved understanding of scope and quantities, ECI (early contractor involvement), and rebenchmarking of rates to reflect current market norms."</p> <p>We will be reviewing both of these matters further over the coming months to determine the impact, if any, on our VFM conclusion, and will report back to ARAC in our Audit Findings Report in June.</p>

# Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Value for money (continued)	<p>We continue to monitor the growth and evolution of the Authority. As part of our work we have noted recent developments:</p> <ul style="list-style-type: none"> <li>At its meeting on 22 March the Board approved an extension of £70m to the Commercial Investment Fund (total £140 Million) targeted towards the commercial sector and approved the implementation of a new £70 Million investment fund targeted towards the residential sector. The existing CIF has delivered a net contribution to the Authority over its existence. We have not identified any significant risks through our work in relation to your financial statements or that there are significant residual VFM risk that we need to address for 2018/19. We have yet to complete our work in respect of reviewing the Authority's analysis of potential credit losses in line with the updated IFRS 9 and will keep this item under review.</li> <li>At the 22 March meeting the Board also approved the new governance structure for the delivery of the 5G Project, including establishing a Joint Venture through a non-statutory committee pursuant to a written memorandum of understanding between the members and a Delivery Entity will operate as a private company limited by guarantee, wholly-owned by the WMCA (WM5G Limited). We will be expecting recognition of the company within the Group Boundary for 2018/19 but no significant transactions. The operation and delivery of the project will be of greater significance in 2019/20 and will therefore be a focus of our work next year.</li> <li>On 21 March we were informed by management that Accessible Transport Group (ATG), who operate the Ring and Ride services and some tendered bus contracts under the iGO brand for the WMCA alongside Home to School Services for some WMCA Constituent Authorities, was experiencing significant financial difficulties. On Friday 22nd March 2019 ATG went into administration. The Authority has maintained its support through advance of the April Ring and Ride grant in order to secure the continuance of services to vulnerable service users and has entered into agreements with the Administrator to continue these in the interim until a managed transfer to a new provider can be procured.</li> </ul>	<p>We will be reviewing how the Authority is managing these potential risks in respect of maintaining services for vulnerable people and ensuring value for money for taxpayers.</p>

# Results of Interim Audit Work – WMITA Pension Fund

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Internal audit</b>	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also considered internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Overall, we considered the work of internal audit to date, to help inform our understanding of the Pension Fund control environment and inform our audit strategy for our accounts.  Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	We have reviewed the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our work has not identified any weaknesses to date which impact on our audit approach.
<b>Journal entry controls</b>	We have reviewed the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our work has not identified any weaknesses to date which impact on our audit approach.
<b>Review of information technology controls</b>	We are currently performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. This work will be completed in early April.	Our work in this area will be completed shortly.

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# Sector Update

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Local government is tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local  
government

# Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

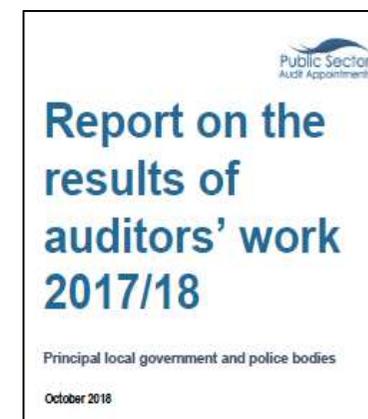
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## PSAA Report

### Challenge question:

Does the PSAA report highlight any areas for improvement that the WMCA believes it needs to make to the 2018/19 financial statements audit and Value for Money Conclusion?



# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

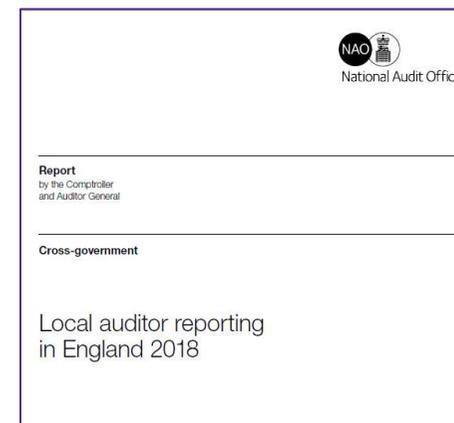
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



## NAO Report

### Challenge question:

Has the Authority responded appropriately to any concerns or issued raised in the External Auditor's report for 2017/18?



# National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

## NAO Report

### Challenge question:

Has the Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



# CIPFA – Financial Resilience Index plans revised

## The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



# ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

### • Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures

### • Limited usefulness of auditors reports: 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'

### • Other powers and duties: implementing public interest reports in addition to VFM

### • Restricted role of questions and objections: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.

### • Audit qualification not always acted on by those charged with governance: 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'

### • Audit committees not consistently effective: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.

### • Decreased audit fees: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

### • Impact of audit independence rules: new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role

### • Other stakeholders expectations not aligned with audit standards

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

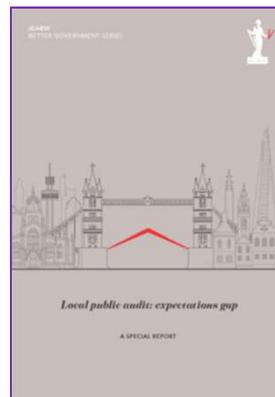
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

## More information can be found in the link below (click on the cover page)



## The expectations gap

### Challenge question:

How effectively is the audit meeting client expectations?



# Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for local authorities to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that local authorities identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

## Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

## Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

## Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

## Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

**Your organisation** – including considerations on workforce, funding, and changes to legislation

**Your services and suppliers** – ensuring that critical services are protected and building resilience within supply chains

**Your place** – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

## Brexit

### Challenge question:

How well advanced are the Authority's plans for Brexit?



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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## National Audit Office link

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

## Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

# Local Government audits 2018/19 and beyond

## Grant Thornton's External Audit commitment

Audit 2018/19

### Our team



**Grant Patterson, Engagement Lead**

As your engagement lead, Grant will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Authority and Pension Fund and take overall responsibility for delivering high quality audits, which meet the highest professional standards while adding value.



**Nicola Coombe, Audit Manager for West Midlands Combined Authority**

As the engagement manager, Nic is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands Combined Authority.



**Terry Tobin, Audit Manager for West Midlands ITA Pension Fund**

As the engagement manager, Terry is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands ITA Pension Fund.

*"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".*

Director of Finance, local audited body



## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach



*"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."*

Director of Finance, County Council



## Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

# Grant Thornton in Local Government

## Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.



## Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions



## Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants



## Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT



## Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies





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