

External audit progress and update report for Carlisle City Council Year ending 31 March 2017

February 2017

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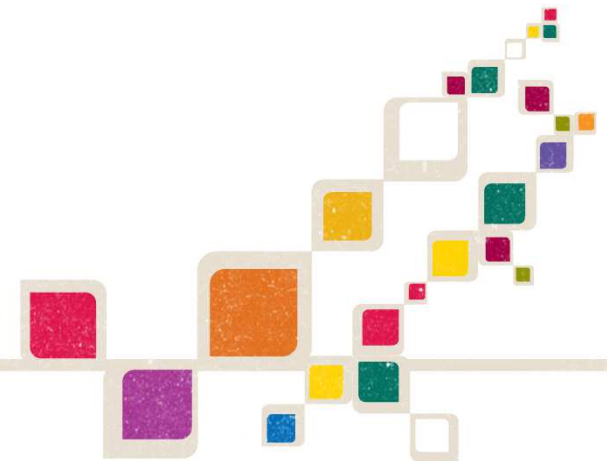
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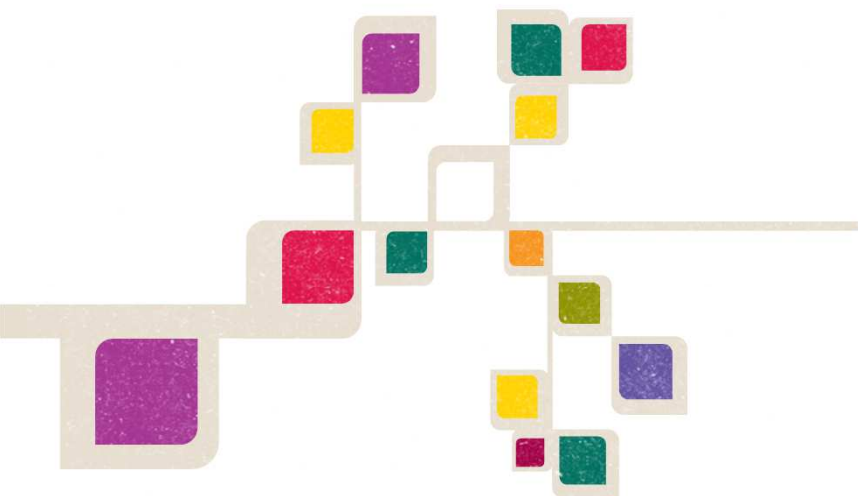
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Introduction

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

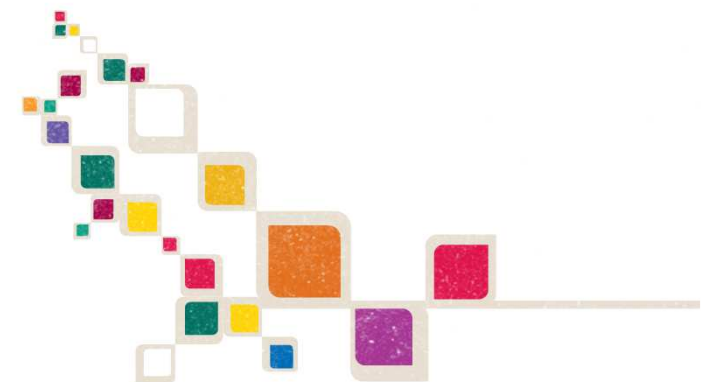
Members can find useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector.

In our last external audit update report we provided you with hard copies and summary information on the publications listed below.

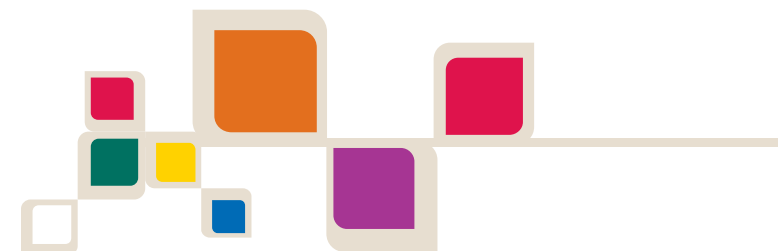
- Advancing Closure: Transforming the financial reporting of local authority accounts;
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- Culture of Place: summary of round table discussions and a collection of short videos:
<http://www.grantthornton.co.uk/en/insights/culture-of-place/>

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.

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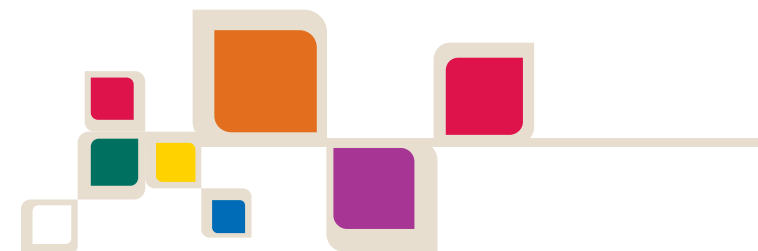


Progress at February 2017



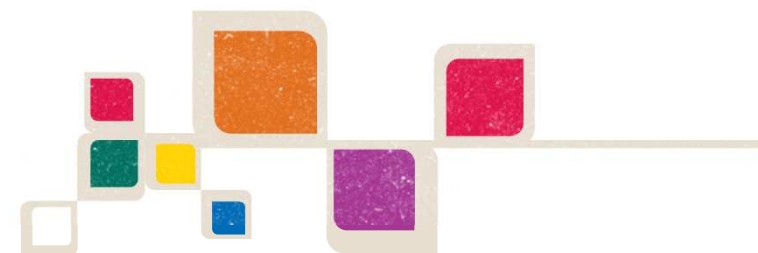
2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.	April 2016	Yes	We issued the fee letter for 2016/17 in April 2016, with no change to the scale fee proposed. This was presented to the Audit Committee on 19 April 2016. There is no change in the scope of the areas of audit from 2015/16.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.	March 2017	Yes	The Audit Plan is included as an agenda item at this Audit Committee on 16 March 2017.
Interim accounts audit Our interim fieldwork visit plan included: <ul style="list-style-type: none"> • updated review of the Council's 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; and • Value for Money conclusion risk assessment. 	February 2017	On-going	<p>Our interim work is on-going and is expected to be completed by the end of February 2017. We have undertaken early substantive work where it is relevant and efficient to do so.</p> <p>To date, we can confirm that there are no matters arising from our work that we need to bring to the attention of the Audit Committee.</p>

Progress at February 2017



2016/17 work	Planned Date	Complete?	Comments
Review of Information Technology controls Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.	December 2016	Yes	<p>From the cyclical review of IT controls we identified eight areas for improvement. None of the issues identified have been assessed as significant, and therefore do not impact upon our audit approach. This update report provides a high level overview of findings and the action agreed, as summarised below:</p> <ol style="list-style-type: none"> 1. No testing of the Council's disaster recover plan has been undertaken during 2016/17. <i>An annual test will be implemented by October 2017.</i> 2. New staff members do not receive training in information security. <i>To be followed up with the training unit by December 2017.</i> 3. Two users not involved in day-to-day administration of the Civica system have full access to this system. <i>Access to the Civica system will be reviewed by June 2017.</i> 4. No process is in place to regularly review inactive user accounts on the network. <i>A review will be implemented by October 2017.</i> 5. A user account from a supplier had unnecessary system administrator access to the network where the supplier was no longer used by the Council. <i>Domain administrative privileges will be reviewed by October 2017.</i> 6. User accounts and associated permissions within 'Active Directory' are not being formally reviewed for appropriateness. <i>Procedures will be implemented to review user accounts and permissions by October 2017.</i> 7. Logs of information security activity within 'Active Directory' are not being formally, proactively, and routinely reviewed. <i>Products to automatically monitor logs are being considered by management by December 2017.</i> 8. Documented policies and procedures have not been formally established addressing change management processes and related control requirements within Civica Authority Financials, Trent, and Academy. <i>This had already been identified as an issue by the D&IS management team. A process to implement change control within the service will be developed and implemented. Timescale to be determined.</i>

Progress at February 2017



2016/17 work	Planned Date	Complete?	Comments
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements; • proposed opinion on the Council's accounts; • proposed Value for Money conclusion; and • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. 	June to July 2017	Not yet started	<p>We will focus on completing the final accounts work during this period.</p> <p>The audit deadline for 2016/17 is 30 September 2017 and the results will be reported in the Audit Findings Report. The Council are expecting to adopt early closedown of the accounts and an early sign off of their accounts, with the Audit Findings Report scheduled to be presented to the Audit Committee at the end of July 2017. The Authority is to be commended in trialling the early closedown and audit of the accounts by 31 July 2017, a year ahead of the mandated change in deadlines.</p>
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2016. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". 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: <ul style="list-style-type: none"> • Informed decision making; • Sustainable resource deployment; and • Working with partners and other third parties. 	January to July 2017	On-going	<p>The guidance and supporting information includes:</p> <ul style="list-style-type: none"> • the legal and professional framework; • definitions of what constitute 'proper arrangements'; • guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified; • evaluation criteria to be applied; • reporting requirements; and • local government specific guidance. <p>The guidance is available at https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p> <p>The results of the initial risk assessment are detailed in the Audit Plan. Our work will be reported in the Audit Findings Report to the Audit Committee at the end of July 2017.</p>

Grant Thornton



Off-payroll working in the public sector

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”.

When the proposals were originally made, the public sector was defined as those bodies that are subject to the Freedom of Information rules. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult, however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

Impact

- Increased costs.
- Responsibility moved to the engager.
- Increased risks for the engager.
- Consider current arrangements in place.

Areas / risks to consider

- Interim and / or temporary staff engaged through an intermediary or PSC;
- Where using agencies ensure they're UK based and operating PAYE;
- Update on-boarding / procurement systems, processes and controls;
- Additional take on checks and staff training / communications;
- Review of existing PSC contractor population before April 2017; and
- Consider moving long term engagements onto payroll.

Salary Sacrifice Arrangements-Autumn Statement

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

What should you be thinking about?

- Review the benefits you offer - particularly if you have a flex renewal coming up;
- Consider your overall Reward and Benefit strategy; and
- Consider your Employee communications.

Technical Matters



Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings;
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES;
- the changes will remove some of the complexities of the current segmental note; and
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework;
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness; and
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships. It should be applied using the spirit and ethos of the framework rather than just seen as a set of rules and procedures.

Sector issues and developments



Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. These are available on the website:

<http://www.local.gov.uk/publications>



Provisional LG Finance Settlement for 2017/18

12 January 2017

The LGA has published its responses to the DCLG consultation on proposals for the local government finance settlement for 2017 to 2018 and for the approach to future local government finance settlements.

<http://www.local.gov.uk/documents/10180/8150261/Local+Government+Finance+Settlement+1718+LGA+response.pdf/dd8d32e1-ec9f-4314-8121-7aae2195f89f>



A councillor's workbook on neighbourhood and community engagement

11 January 2017

Neighbourhood and community engagement has a rightful place as one of the key processes involved in planning and decision making. As such, it should not be viewed as an additional task, but as a core part of the business.



Building our homes, communities and future: The LGA housing commission final report

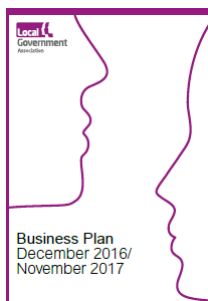
22 December 2016

The Local Government Association (LGA) Housing Commission was established to help councils deliver their ambition for places. It has been supported by a panel of advisers and has engaged with over 100 partners; hearing from councils, developers, charities, health partners, and many others. All partners agree that there is no silver bullet, and all emphasise the pivotal role of councils in helping provide strong leadership, collaborative working, and longer-term certainty for places and the people that live there.

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Business Plan December 2016/November 2017

30 December 2016

Britain's exit from the EU means that we are reshaping the way our country is run. Our vision is one of a rejuvenated local democracy, where power from Westminster and from the EU is significantly devolved to local level and citizens feel they have a meaningful vote and real reason to participate in civic life and their communities.



Stronger together: shared management in local government

29 November 2016

Around 45 councils across England share a chief executive and senior management team in about 20 different partnerships. Most also share at least some services. These councils have already delivered savings of at least £60 million through greater efficiencies and the other benefits of collaboration, with more savings planned.



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