

South Hams Audit Committee



Title:	Agenda
Date:	Thursday, 7th January, 2016
Time:	10.00 am
Venue:	Cary Room - Follaton House
Full Members:	<p style="text-align: center;">Chairman Pennington</p> <p style="text-align: center;">Vice Chairman Wingate</p> <p><i>Members:</i> Bramble Foss Brazil</p>
Substitutes:	Named substitutes are not appointed
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Darryl White, Senior Specialist - Democratic Services

1. Minutes	1 - 6
to approve as a correct record and authorise the Chairman to sign the minutes of the Audit Committee held on 24 September 2015	
2. Urgent Business	
brought forward at the discretion of the Chairman	
3. Division of Agenda	
to consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information	
4. Declarations of Interest	
Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting	
5. The Annual Audit Letter for South Hams District Council	7 - 14
to consider a Grant Thornton report that summarises the key findings arising from the work that have carried out at South Hams District Council for the year ended 31 March 2015	
6. Certification Work for South Hams District Council for year ended 31 March 2015	15 - 18
to consider a letter from Grant Thornton entitled: Certification Work for the Council for year ended 31 March 2015	
7. Report on Value for Money for the Council	19 - 38
to consider a report from Grant Thornton on value for money;	
8. External Audit Progress Report and Technical Update	39 - 58
to consider a report from KPMG that provides the Committee with an overview on progress in delivering their responsibilities	
9. Appointing Your External Auditor	59 - 66
to consider a report from KPMG that outlines what local authorities should be considering in appointing their External Auditors	
10. Update on Progress on the 2015/16 Internal Audit Plan	67 - 82

to consider a report that informs Members of the principal activities and findings of the Council's Internal Audit team for 2015/16

This page is intentionally left blank

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 24 SEPTEMBER 2015**

Members in attendance * Denotes attendance ∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr J T Pennington (Chairman)
*	Cllr J Brazil	*	Cllr K R H Wingate (Vice-Chairman)
*	Cllr R J Foss		

Members also in attendance:
Cllrs H D Bastone, R J Tucker, L A H Ward and S A E Wright

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Executive Director (Service Delivery and Commercial Development); Group Manager – Support Services, S151 Officer, Grant Thornton Representatives, Devon Audit Partnership Manager, Senior Specialist – Democratic Services and Finance Business Partner
5	A.16/15	Assistant County Treasurer, Investments and Treasury Management – Devon County Council

A.14/15 MINUTES

The minutes of the meeting held on 30 July 2015 were confirmed as a correct record and signed by the Chairman.

A.15/15 DECLARATIONS OF INTEREST

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.16/15 PRESENTATION FROM MARK GAYLER (ASSISTANT COUNTY TREASURER, INVESTMENTS AND TREASURY MANAGEMENT) OF DEVON COUNTY COUNCIL ON THE PENSION FUND

The Committee received a presentation from Mr Mark Gayler (Assistant County Treasurer, Investments and Treasury Management) of Devon County Council on the Devon Pension Fund Investments and Risk.

The presentation concluded by looking to the future and made reference to:

- The Pension Fund having a long term horizon over which to invest;
- A need to invest in return seeking assets to reduce deficit position;
- The Fund needing to adapt to a changing world and increasing volatility of markets;
- Negative cashflow (contributions less benefits) needing to be factored into investment strategy for future years;
- Greater emphasis on cost savings (proposals for pooled investments / greater collaboration); and
- Long term performance still being the overriding objective.

In discussion, reference was made to:-

- (a) the Deficit Recovery Position. The Committee was advised that the County Council was more than happy to open up dialogue with the Council if it wished to consider reducing its deficit recovery period (which currently stood at 27 years (the Devon Pension Fund average was 25 years));
- (b) the increase in net pension liability from £32,704 million (at 1 April 2014) to £46,671 million (at 31 March 2015). Whilst acknowledging that this was attributed to a change in actuarial assumptions in 2014/15, Members still wished to express their concern at the substantial increase in total liability. The reduction in the discount rate from 4.4% to 3.3% was the main reason for the increase in the net pension liability and Mr Gayler explained that the discount rate fluctuated on a daily basis and a snapshot was taken on 31 March each year. In response, Mr Gayler informed that the actuary would look in a much more holistic way at this issue during its next actuarial review;
- (c) the Council decision to invest £17 million in its pension fund in 2003. Mr Gayler reassured the Committee that this had been a good decision and had resulted in the Council paying considerably less in its annual contribution rates;
- (d) the impact of the Transformation Programme. Throughout the Programme, the S151 Officer confirmed that the actuary was kept fully informed of the impact on the pension fund and, as a consequence, the Council had accurately predicted the strain of all employees over the age of 55 leaving the authority and had budgeted accordingly. In the ensuing general discussion, Mr Gayler confirmed that he would let officers know the cost of seeking actuary opinion on the merits of making a future capital payment. In addition, the Committee acknowledged that the age profile of the organisation was now significantly lower and this would also have an impact;

- (e) the performance of the Fund. In comparison to other Funds, Mr Gayler informed that the Devon County Council Pension Fund had not performed as well in recent years. However, with the government direction of travel appearing to be to pool pension funds across the South West region, then there was not felt to be any value in changing investment managers at this time.

In conclusion, the Chairman thanked Mr Gayler for his informative presentation and interesting responses to Committee questions.

A.17/15 **ANNUAL GOVERNANCE STATEMENT 2014/15**

The Committee considered a report that informed that no changes were required to the Annual Governance Statement (AGS) from the version that was considered and approved at the July 2015 Audit Committee meeting (Minute A.10/15 refers).

In discussion, reference was made to:-

- (a) the identified issue in relation to Land Charges. In light of legal advice, it was noted that reference to the settlement figures had been removed from the Code of Corporate Governance;
- (b) the role of the S151 Officer at meetings of the Senior Leadership Team (SLT). The Committee was advised that the S151 Officer had access to the weekly SLT agenda and also had an open invitation to attend SLT meetings.

It was then:

RESOLVED

That it be noted that no changes were required to the Annual Governance Statement 2014/15 from the version considered and approved at the July 2015 Audit Committee.

A.18/15 **ANNUAL STATEMENT OF ACCOUNTS 2014/15**

Members considered a report that presented a summary of net revenue and capital expenditure.

During discussion, it was confirmed that the published version of the Statement of Accounts would be updated to reflect the fact that the job title of the S151 Officer had changed from the 'Head of Finance' to the 'Finance Community Of Practice Lead'.

It was then:

RESOLVED

1. That the wording of the Letter of Representation (as outlined at Appendix A of the presented agenda report) be approved; and
2. That the audited Statement of Accounts for the financial year ended 31 March 2015 (as outlined at Appendix B of the presented agenda report) also be approved.

A.19/15 THE AUDIT FINDINGS FOR SOUTH HAMS DISTRICT COUNCIL

A Grant Thornton report was considered that highlighted the key matters arising from their audit of the Council's financial statements for the year ended 31 March 2015.

Once the Grant Thornton Audit Manager had taken the Committee through the report, Members emphasised the excellent outcome and wished for their congratulations and thanks to be extended to the Section 151 Officer and her finance colleagues.

It was then:

RESOLVED

That the paper be noted.

A.20/15 THE USE OF AGENCY STAFF

A report was considered that provided the Committee with an update on the Council's use of agency staff.

In discussion, the following points were raised:-

- (a) Some Members expressed their concerns at the upward trend in the percentage of agency staff (increased from 6.0% in 2012/13 to 9.9% in 2014/15) and the subsequent costs arising from using agency staff. In response, officers advised that this trend was being reversed in light of Environment Services (which had been employing a number of agency staff) now permanently filling their vacancies. In addition, the recent completion of Phase 2 of the Transformation Programme had enabled the Council to be in a position to advertise to fill its vacancies.

However, the Committee also recognised that the percentage of agency staff in the future may stay fairly constant in light of there being less permanent total staff numbers on the Council's establishment;

- (b) It was the future aim of officers to be in a position to reduce the total staffing costs to £10 million;

- (c) Such was the importance of this issue, the Committee was of the view that it would like to be in a position to review the trends again via a further report in six months' time. For the next report, officers also agreed to give consideration to methods of better illustrating the percentage and cost splits between South Hams District Council and West Devon Borough Council.

It was then:

RESOLVED

1. That the contents of the report be noted;
2. That the Senior Leadership Team continue to monitor the use and cost of using agency workers; and
3. That an update report be presented to the Committee in six months' time.

A.21/15

UPDATE ON PROGRESS ON THE 2015/16 INTERNAL AUDIT PLAN

The Committee considered a report that informed it of the principal activities and findings of the Council's Internal Audit team for 2015/16 to 31 August 2015.

In discussion, the following points were raised:-

- (a) Whilst it would be formally reported to the next Committee meeting, the Group Manager – Support Services advised that the Council had just received a 'good' audit finding from central government in respect of its IT security compliance;
- (b) The Committee was given assurances that the cash collection audit findings were in no way linked to the Council changing its bank account;
- (c) With regard to the 50 days unplanned audit work for the Greater Dartmoor Local Enterprise Action Fund (LEAF) and South Devon Coastal Local Action Group (LAG), some Members commented that this seemed to be excessive. In reply, officers advised that these were funded from EU Grants and, as a result of EU legislative requirements, were very resource intensive.

It was then:

RESOLVED

That the progress made against the 2015/16 internal audit plan, and any key issues, be noted.

(Meeting commenced at 10.00 am and finished at 12 noon)

Chairman

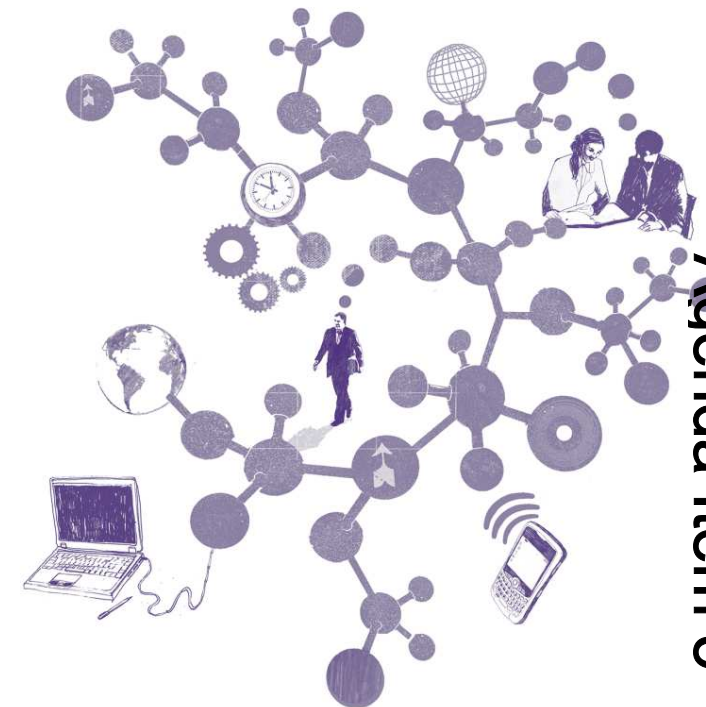
The Annual Audit Letter for South Hams District Council

Year ended 31 March 2015

16 October 2015

Barrie Morris
Director
T 0117 305 7708
E barris.morris@uk.gt.com

Steve Johnson
Audit Manager
T 07880 456 134
E steve.p.johnson@uk.gt.com



Contents

Section	Page
1. Key messages	3

Appendices

- A Key issues and recommendations
- B Summary of reports and audit fees

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at South Hams District Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 12 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September 2015 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none">• the accounts were free of significant errors; and• we did not identify any adjustments that affected the Council's reported financial position. <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 24 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirmed that the financial statements gave a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
Value for Money conclusion	<p>We issued an unqualified Value for Money conclusion for 2014/15 on 24 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>

Key messages continued

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
Certification of housing benefit grant claim	We have not yet completed our work on the certification of the Council's 2014/15 housing benefit grant claim. The deadline for completion is 30 November 2015. We anticipate that this deadline will be met.
Audit fee	Our fee for 2014/15 was £57,872, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/responsible officer	Due date
1	The Council's asset software system should be updated to ensure that it agrees with the amounts disclosed in the accounts.	Medium	The Council will continue dialogue with the software provider as to how these amounts can be changed on the software system to show the correct figure.	Capital Accountant December 2015
2	All journals should have a narrative description to explain the nature and purpose of the transaction.	Medium	Agreed. Management will amend the software journal entry procedures to ensure that all journals have a notes facility attachment explaining the reason for the journal.	Finance Community of Practice Lead. September 2015

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	57,872	57,872
Housing benefit grant certification fee	9,770	9,770
Total audit fees	67,642	67,642

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit related services	Nil

Report	Date issued
Audit Plan	12 March 2015
Audit Findings Report	24 September 2015
Financial Resilience	November 2015
Certification Report	December 2015
Annual Audit Letter	16 October 2015



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank



Lisa Buckle
Head of Finance and Audit
South Hams District Council
Follaton House
Plymouth Road
Totnes
Devon
TQ9 5NE

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street,
Bristol
BS1 6FT

+44 (0)117 3057600
www.grant-thornton.co.uk

11 December 2015

Dear Lisa

Certification work for South Hams District Council for year ended 31 March 2015

We are required to certify one claim submitted by South Hams District Council ('the Council'). This certification is required by 30 November 2015 and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit return for the financial year 2014/15 which included expenditure of £22.4 million. Further details of our certification work is set out in Appendix A.

There were no issues arising from our certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile the return accurately and in a timely manner for audit certification.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £9,770. This is set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of Housing Benefit return certified for 2014/15

Return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	22,434,398	No	N/A	No	None

Appendix B: Fee for 2014/15 certification work

Claim or return	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	9,328	9,770	9,770	0	None

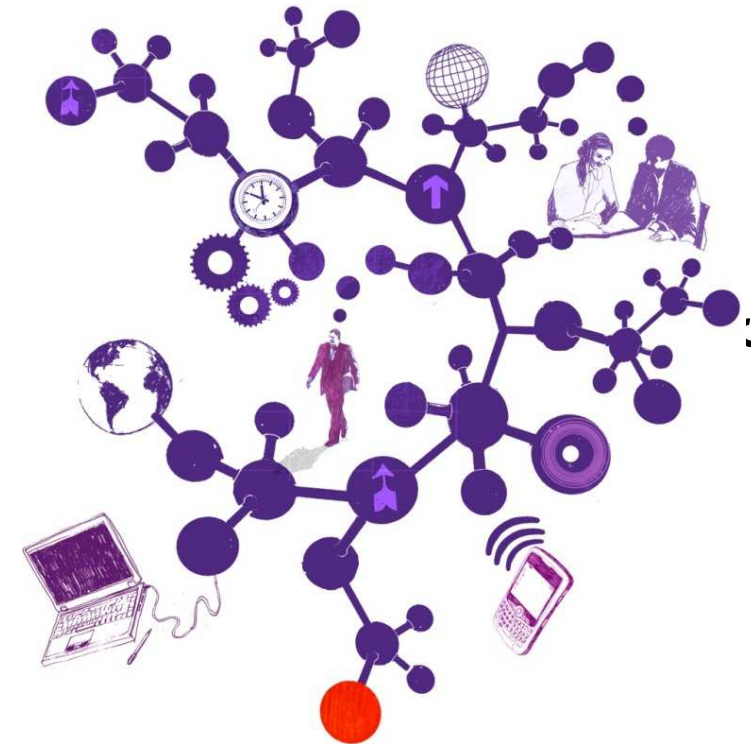
This page is intentionally left blank

Report on Value for Money for South Hams District Council

Page 10
Year ended 31 March 2015
Report date 7 January 2016

Barrie Morris
Engagement Lead
T 0117 305 7708
E barrie.morris@uk.gt.com

Steve Johnson
Audit Manager
T 07880 456134
E Steve.p.johnson@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

01 Introduction Page 03

02 Executive Summary Page 06

03 Key Indicators of Financial Performance Page 08

04 Strategic Financial Planning Page 13

05 Financial Governance Page 14

06 Financial Control Page 15

07 Prioritising Resources Page 16

08 Improving Efficiency & Productivity Page 17

Page 21

Introduction

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It complements our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report").

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness: the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2014/15 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The last Parliament saw reductions in central funding to Local Government that will have reached 40% by the end of 2015/16.

The Conservatives made a manifesto commitment to move public finances into surplus during 2018-19, so a further two years of deficit reduction are planned.

The commitments specific to local government have a key focus on growth and evolution and include:

- Page 23
- devolving far-reaching powers over economic development, transport and social care to those large cities that choose to have elected mayors;
 - rebalancing the economy by building a Northern Powerhouse and by backing elected Metro Mayors;
 - introducing financial incentives to councils for promoting economic growth, including piloting the retention of 100% of business rate growth (with Cambridgeshire, Greater Manchester and Cheshire East);
 - delivering more bespoke Growth Deals with local councils, where backed by LEPs;
 - supporting Business Improvement Districts to bring greater collaboration on local issues.

The level of further departmental spending cuts – including those affecting local government – was announced in this Autumn's Spending Review.

Locally

All Councils have faced large reductions in Government funding since the Comprehensive Spending Review 2010. By the end of 2015/16, the Council's grant funding (Revenue Support Grant) will have reduced by over 40% from 2013.

The Council, along with West Devon Borough Council, has used the Transformation Programme (T18) to adopt a pro-active approach to delivering savings. The aim was to ensure that both Councils were able to deliver quality services for their customers and communities. An investment budget of £4.6 million was approved to deliver annual recurring revenue savings of £3.3 million. The payback period for the Programme is 2.5 years. The T18 programme has received the backing of Central Government with an award of £700k of central funding to help pay for some of the initial investment, South Hams share being £434k .

Although this report focuses on the position at September 2015 where the MTFs covered the period to 2018/19, the Council has subsequently agreed its Medium Term Financial Strategy (MTFS), in October 2015, for the five years to 2020/21. This projects a budget surplus over the five years of £266k. This shows the Council is not complacent with its recent achievements and continues to focus on delivering a strong financial future for the council.

There are significant uncertainties to face; further uncertainty over government cuts, business rate retention and continuing limits on Council Tax increases. The Council considers it has taken a cautious approach to these uncertainties.

Executive Summary

Overall Risk Assessment

There were no significant risks identified during our VfM planning.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

The Council reported a surplus of £34k for 2014/15. Whilst this comprises a number of over and underspends, notably:

- increased income from planning activities of £440k
- increased waste disposal costs of £123k
- settlement of a national legal claim of £114k, and
- losses from the Dartmouth Ferry being out of action of £153k

the outturn reflects good financial planning and robust monitoring throughout the year.

Usable reserves at 31 March 2015 were £7.9m and the Council has £4.5m of usable capital receipts. The General Fund balance was £1.7m against an approved minimum level of £1.5m.

The Councils medium term financial strategy, presented in September 2014, for the four years to 31 March 2019 identifies a cumulative funding gap of £14k, assuming the savings from the T18 programme are all realised.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

The Council's plans prioritise its resources reflecting the financial constraints. The T18 programme has been built upon the re-structuring of all the Council's activities which aims to ensure that all parts of the organisation are focussed on delivering services efficiently.

Executive Summary

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment 2013-14	High level risk assessment 2014/15
Key Indicators of Financial Performance	<p>Savings plans have been delivered. The Council made a surplus of £34k after funding the redundancy costs and other T18 costs. The cumulative gap in funding to meet expenditure over the four years to March 2019 is £14k (September 2014 position).</p> <p>Financial ratios are good, below the nearest neighbour average, but not significantly.</p> <p>Usable reserves are £7.9m (15% of gross expenditure)</p> <p>The cumulative gap in the funding to meet expenditure over the next 4 years is £14k</p>	Amber	Green
Strategic Financial Planning	<p>The Council updated its Medium Term Financial Strategy in September 2014, and has subsequently updated in October 2015. The plans are well progressed with savings achieved through the restructure of the Council's workforce.</p> <p>The Council is not dependent on one-off budget fixes or asset sales, nor does it have unsustainable income streams.</p> <p>The majority of redundancies have been made as part of stage 1a and 1b of the restructuring programme, and accounted for in 2014/15. The costs were met from accumulated reserves, savings from the T18 programme and from a Government grant.</p> <p>The Council needs to continue to monitor its service delivery to ensure that appropriate levels of service are maintained.</p>	Green	Green
Financial Governance	<p>The financial position is monitored quarterly. Reports focus on current position and link to the future financial pressures.</p> <p>The Council does some benchmarking of its costs.</p> <p>The S151 officer has unfettered access to the management team and is fully aware of decisions being taken, including financial implications.</p> <p>Quarterly balanced scorecard monitors delivery of key performance indicators.</p>	Green	Green

Executive Summary

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment 2013-14	High level risk assessment 2014/15
Financial Control	The Council has a good track record of achieving its plans.	Green	Green
	The Budget setting process does not rely on one-off fixes to achieve the projected funding gap.		
Prioritising Resources	South Hams (with West Devon) plans to deliver its longer term savings plans through the T18 project. Both groups of members receive quarterly updates on the programme and the financial position.	Green	Green
	The T18 program has focused management and members on the need to achieve the levels of savings projected.		
	T18 project empowers management and leaders to change the way the Council (and West Devon) operates to achieve large savings across both councils.		
Improving Efficiency & Productivity	Service cost and delivery are considered and the impact is measured across the balanced scorecard in the Performance report.	Green	Green
	Benchmarking is done through the use of statistics provided by Sparse. Areas of high spend were highlighted in 2013/14. The council recognised these at the time. The Audit Committee requested a detailed response from management to explain the Council's position. These were provided in a report to the Audit Committee on 12 March 2015.		
	The Council has achieved its savings target in 2014/15. There is a small underspend of £34k. The Medium Term Financial Strategy has identified a funding gap of £14k over the four years to 31 March 2019 (September 2014 position).		
	There have been no reports or inspections which have identified areas where services are failing.		

Key Indicators of Financial Performance

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Council Tax collection	Council tax collection rate was 98.3% (2013/14 -98.8%) in 2014/15 which represents a marginal decrease against the previous year. This reflects the change in arrangements for Council Tax Benefit.	Green	Green
NDR collection	NDR collection rates for 2014/15 were 98.6% (98.6% in 2013/14) which is consistent with 2013/14. This represents a good performance against a difficult financial climate.	Green	Green
Workforce	The Council's quarterly performance report shows that the average days short term sickness per full time employee remains within the Council's target level. In 2014/15 the Council had an average of 10.21 days per FTE (2013/14 10.4). Long term sick days have fallen but still represent 65% of total sickness.	Green	Green
Performance against budgets (Revenue Capital & Savings)	The surplus on the General Fund of £34k is an improved position against 2013/14 (deficit of £127k). This represents a positive outcome given the shortfall in income on the Dartmouth Ferry (£153k), an increase in disposal costs and tipping charges for Trade Waste (£123k) and the settlement of a national legal claim (£114k), which were offset by additional income from planning applications due to a number of large applications for renewable energy (£440k).	Green	Green
Reserves balances	Usable reserves have reduced by £2.46m from the preceding year and stand at £7.9m at 31 March 2015. This is due to the Council financing the investment costs for the Transformation Programme in 2014/15, where funding was set aside in previous years. Capital reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2015 amounts to £4.8m compared to £4.6m at the end of the previous year.	Green	Green

Key Indicators of Financial Performance

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Area of focus	2014/15	2013/14	Commentary (spend per head of population)	RAG-Rating 2013/14	RAG-Rating 2014/15
Working capital ratio	2.55	4.03	Proportion of current assets to current liabilities. The Council has cover for its current liabilities, although this has reduced as a result of the year end creditor to West Devon arising from the T18 costs.	Green	Green
General Fund Balance	£1,741k	£1,707k	General fund balance (Un-earmarked Reserves) is low compared to the average of other Council's (£2,821k), but is in line with Councils target balance of £1,500k. The Council also has £6,166k of earmarked reserves.	Amber	Amber
Usable reserves to Gross revenue expenditure	0.25	0.31	The Council increased its earmarked reserves in 2013/14 to provide investment into the T18 programme. These were used, as planned, in 2014/15. The Council's usable reserves remain above that of its nearest neighbours.	Green	Green
Usable capital receipts	£4,463k	£4,497	The Council has a healthy level of usable capital receipts. This will allow the Council to continue to fund its capital plans over the foreseeable future.	Green	Green
Long term borrowing to tax revenue ratio	0	0	The Council is debt free.	Green	Green

Source – Audit Commission Key ratio profiles

Key Indicators of Financial Performance

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The figures from the Audit Commission profiles are for 2013/14. The updated tables are expected in early January

Area of focus	2013/14	2012/13	Average 2013/14	Commentary (spend per head of population)	RAG-Rating 2013/14	RAG-Rating 2014/15
Total net spend per head	403.53	407.95	379.30	Total net spend per head has come down by 1% to £403.53 which remains above the District Council average net spend for 2013/14 of £379.30. Although spending per head of population is above the average, the Council's T18 programme should deliver savings against the net spend.	Amber	Amber
Spend on council tax benefits and housing benefits administration per head	16.43	16.15	11.17	The Council's costs of collection exceed the family average. However, as reported to the Audit Committee on 12 March 2015, net spend on Housing benefit and Council tax benefit administration has reduced considerably (42%) in 2014/15 and is now below average when compared to other district councils. South Hams net spend was £6.18 per head in 2013/14 compared to the district average of £6.45. The T18 programme will continue to deliver further savings and reductions.	Red	Amber
Spend on culture and sport	25.11	24.37	38.14	As for most Devon districts, spending on leisure, culture and sport is below average. This reflects the nature of the area and the availability of alternative leisure opportunities.	Green	Green

Source – Audit Commission Value for Money profiles

Key Indicators of Financial Performance

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The figures from the Audit Commission profiles are for 2013/14. The updated tables are expected in early January

Area of focus	2013/14	2012/13	Average 2013/14	Commentary (spend per head of population)	RAG-Rating 2013/14	RAG-Rating 2014/15
Environmental services	59.30	55.44	47.49	In a recent review of the South Hams waste service, savings/income streams were identified which will start to decrease the cost per household. Further work is planned which should lead to a further decrease in costs.	Red	Amber
Housing Services	15.44	12.15	13.24	Spending on housing services is 16% above the average for its family group.	Green	Green
Sustainable economy	100.66	91.96	62.25	This represents a corporate priority, so spend is in line with expectations.	Amber	Amber

Source – Audit Commission Value for Money profiles

Page 30

Key Indicators of Financial Performance

We use a red/amber/green (RAG) rating with the following definitions.

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The figures from the Audit Commission profiles are for 2013/14. The updated tables are expected in early January

Area of focus	2013/14	2012/13	Average 2013/14	Commentary (spend per head of population)	RAG-Rating 2013/14	RAG-Rating 2014/15
Council Tax requirement	£6,601k	£6,860k	£7,053k	Requirement is falling and is below the Group average.	Green	Green
Income from Sales, Fees and Charges as a % of total spend	37.14%	29.84%	25.96%	This includes planning, leisure and transport related income. Income is above the average.	Green	Green
Spend on management and support	Not recorded	49.6%	42.7%	In 2012/13 The Council's spend on management was above average. However since then, the Council has implemented its T18 Programme and a Senior Management Review which has delivered savings of £350,000 across both Councils.	Green	Green

Source – Audit Commission Value for Money profiles

Strategic Financial Planning

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Focus of the MTFP	<p>The Council updated its MTFS in September 2014, and has subsequently updated in October 2015, and relies upon the successful implementation of the T18 programme. The large majority of redundancies have been made as part of stage 1a and 1b, and accounted for in 2014/15, which has ensured that significant cost reductions have been achieved from 2015/16.</p> <p>The Councils medium term financial strategy for the four years to 31 March 2019 identifies a cumulative funding gap of £14k (reported September 2014). Assuming the savings from the T18 programme are all realised.</p>	Green	Green
Adequacy of planning assumptions	<p>The planning process is robust with appropriate risk management and involvement from service managers. The major assumption is that the T18 project is delivered successfully and in full.</p> <p>The MTFS sets out clearly the assumptions considered and these appear reasonable. The T18 planning also models various assumptions.</p> <p>The Council is not dependent on one-off budget fixes or asset sales, nor does it have unsustainable income streams.</p>	Green	Green
Scope of the MTFP and Links to Annual Planning	<p>The annual budget is derived from the MTFS and is completed as part of the updating of the forecasts. The MTFS covers a four year horizon.</p> <p>Planning starts in the summer, nine months before the start of the financial year, and following discussions and consultation the annual budget and council tax is set in February.</p>	Green	Green
Review process	<p>MTFS covers period to 2018/19. It was updated in September 2014 and takes into account expected decreases in government funding.</p> <p>Going forward, the Council needs to continue monitor the delivery of its services to ensure that the required levels and quality standards are maintained.</p>	Green	Green
Responsiveness of the Plan	<p>The MTFS does not include scenario planning and could be improved to incorporate this. However, the Council monitors the budget on a quarterly basis with any deviations, positive or negative, being addressed through an action plan.</p> <p>However the 2015 MTFS does include the sensitivity analysis being recommended here.</p>	Green	Amber

Financial Governance

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Understanding of the financial environment	The Council has been re-structured to produce a more streamlined management team. Whilst the S151 officer is not a member of the senior management team, she is able to attend the management team meetings on request, has unfettered access to all members of the management team and is fully aware of decisions being taken, including financial implications. The quarterly reports focus on the current position and link to the future financial pressures.	Green	Amber
Executive & Member Engagement	Members receive quarterly monitoring reports on the budget and the Council's performance. The Audit Committee is very challenging. All reports receive thorough consideration. The Group Manager (Support Services), Finance Community of Practice Lead, the Audit Manager or the Head of the Audit Partnership attend every meeting. Any issues that are not fully resolved or responded to are challenged and followed up at the next meeting.	Amber	Amber
Overview for controls over key cost categories	The leadership team is fully aware of the current financial position and future outlook. Budget and required savings are considered and planned through management team and Council. The MTFS sets out clearly the position of the Council currently and projected forward.	Green	Green
Budget Reporting (Revenue & Capital)	Monitoring reports are presented to management team before being given to members (executive committee). The quarterly balanced scorecard monitors delivery of key performance indicators.	Green	Green
Frequency of other Committee Reporting	Quarterly performance is shown as a balanced scorecard. The Balanced Scorecard gives an overview of performance, and any indicators which have been at 'red status' (i.e. 10% or more below target) for two or more consecutive quarters are reported individually.	Green	Green

Financial Control

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Budget setting & monitoring - revenue & capital	<p>The MTFS does not include any reliance on short term fixes.</p> <p>The Council (with West Devon) delivered its longer term savings plans through the T18 project.</p> <p>The large majority of redundancies have been accounted for and other costs funded in the 2014/15 accounts.</p>	Green	Green
Savings plans setting & monitoring	<p>Savings identified are all continuing, there are no items of a one-off nature.</p> <p>Whilst cash flow is not included as part of the financial projections, short term finance is available to cover any cash flow fluctuations. The Council should consider whether reporting cash flow projections would provide further assurance for Members over the financial control environment at the Council.</p> <p>Long term savings are being driven by the T18 transformation programme.</p> <p>All initiatives have to be supported by a business case.</p>	Green	Green
Key financial accounting systems	<p>There has been no fundamental change to the main accounting systems and these are assessed as being fit for purpose.</p>	Green	Green
Finance department resourcing	<p>Resourcing has been reduced by 30% as part of T18 program.</p> <p>The current structure has been in place since July 2014 and no issues have arisen.</p>	Green	Green
Adequacy of Internal audit arrangements	<p>The Chief Internal Auditor retired in October 2014 as part of T18. The service is now managed by Devon Audit Partnership, with the operational Internal Audit staff remaining in post at the Council.</p>	Green	Green
Assurance framework/risk management processes	<p>Risk management is reported to the Audit committee on a regular basis and is discussed by members.</p> <p>The assurance framework, including the preparation of the Annual Governance Statement, has been reviewed and was found to be robust.</p>	Green	Green

Prioritising Resources

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Leadership and challenge in prioritising resources	The T18 program has focused management and members on the need to deliver the levels of savings promised. The MTFS, Budget and T18 project progress are reported regularly to members and are open to challenge and comment. The members receive a Quarterly performance report that shows that the T18 program is delivering the expected benefits.	Green	Green
Consultation with key stakeholders	T18 project empowers management and leaders to change the way the Council (and West Devon) operates to achieve large savings across both councils. Service managers are included in the planning process.	Green	Green
Basis for decision making	Under T18 all of the Councils' non-manual workforce is now shared with West Devon Borough Council, delivering shared services. Therefore the focus has been on full transformation, rather than reviewing individual high cost services. A large procurement exercise is currently underway for the six leisure centres of both councils. Risks have been documented and monitored as part of the Audit Committee business and also at Council level.	Green	Green
Understanding impact and outcome of decisions	Service cost and delivery are considered in budget setting and monitoring decisions. The impact of these is measured across the balanced scorecard in the Performance report.	Green	Green

Improving Efficiency & Productivity

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Understanding costs	<p>The Council has developed its own performance report. Benchmarking is undertaken using statistics provided by SPARSE. Areas of high spend were highlighted in 2013/14. The council recognised these at the time, and the Audit Committee requested a detailed response from management to explain the Council's position, which was presented on 12 March 2015. The Audit Commission's VfM profile has again been used to identify areas of high spend.</p>	Green	Green
IT Systems and Data quality	<p>No issues or concerns have been identified over the quality of data.</p>	Green	Green
Delivery of Savings and service re-design	<p>The Council has achieved its savings target in 2014/15. There was a small underspend of £34k. Plans are sufficiently detailed to allow monitoring of the Council's achievement going forward.</p>	Green	Green
Effectiveness of key services	<p>There have been no inspections or other reviews that have identified areas where services may be failing. Overall effectiveness is monitored through the Council's Performance reporting arrangements.</p>	Green	Green

Page 36

© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank



cutting through complexity

External audit progress report and technical update

Page 39

South Hams District Council

December 2015

Agenda Item 8

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

Page 40

KPMG RESOURCES					
Governance Arrangement work over the Better Care Fund					3
KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years					4
Better Care Fund Support Programme					5
KPMG publication titled: Value of Audit: Perspectives for Government					6
TECHNICAL UPDATE					
New local audit framework	●	8	NAO report – Local Government New Burdens	●	14
CIPFA survey on infrastructure assets	●	8	NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals	●	14
Reporting developments – Infrastructure assets	●	9	NAO report – Care Act first-phase reforms	●	15
Local Government Association’s 2015 Spending Review submission	●	10	Care Act first-phase reforms – local experience of implementation	●	16
Local Audit and Accountability Act 2014: Provisions affecting auditors’ work from 1 April 2015	●	11	Proposed changes to business rates and core grant	●	16
APPENDIX					
Appendix 1 – 2014/15 audit deliverables					24



cutting through complexity

KPMG resources

Area	Comments
<p data-bbox="64 325 244 475">Governance arrangements work over the Better Care Fund.</p> <p data-bbox="93 544 134 704" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 42</p>	<p data-bbox="292 325 1980 475">The £3.8 billion Better Care Fund (BCF) (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 Spending Round, to ensure a transformation in integrated health and social care. The BCF is a single pooled budget to support health and social care services to work more closely together in local areas. The BCF not only brings together NHS and Local Government resources, but also provides a real opportunity to improve services and value for money, protecting and improving social care services by shifting resources from acute services into community and preventative settings.</p> <p data-bbox="292 496 1949 589">The governance arrangements for the BCF will therefore have to meet the requirements of all partners to achieve economy, efficiency and effectiveness in their use of resources. Each partner will also need to satisfy itself that the pooled budget complies with the requirements of its appropriate code of governance and annual governance reporting guidance.</p> <p data-bbox="292 611 1960 732">Each partner must also satisfy itself that all other regulatory requirements are met – for example, that discrete funding streams are only spent appropriately at a local level. Partners therefore need to make arrangements to ensure that that is happening. Additionally, there will be a requirement for an audit certificate on this expenditure and arrangements need to be in place to ensure appropriate records are kept to provide sufficient audit assurance.</p> <p data-bbox="292 753 1976 811">With this in mind, CCG governing bodies and Local Authority Executives are now considering whether governance arrangements and structures are fit for purpose and will ensure the effective management of the BCF and the pace of development and implementation.</p> <p data-bbox="292 832 1804 861">We are currently carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry:</p> <ul data-bbox="292 882 727 1146" style="list-style-type: none"> ■ Governance arrangements. ■ Engagement and communication. ■ Hosting arrangements. ■ Signed agreement. ■ Performance management. ■ Financial management.

Area	Comments
<p data-bbox="64 322 269 539">KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years</p> <p data-bbox="93 725 134 882" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 43</p>	<p data-bbox="292 322 1991 415">Without a radical programme of house building, average house prices in England could double in just ten years to £446,000 at current prices, according to research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 at current prices by 2034 if current trends continue.</p> <p data-bbox="292 434 1991 494">The research from KPMG and Shelter also reveals that more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own.</p> <p data-bbox="292 512 1991 605">The warning comes in a landmark report from KPMG and Shelter outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament. With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt.</p> <p data-bbox="292 624 1991 684">The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market. It calls on politicians to commit to an integrated range of key measures, including:</p> <ul data-bbox="292 702 1991 1082" style="list-style-type: none"> ■ giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land; ■ unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed; ■ introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building; ■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and ■ fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need. <p data-bbox="292 1100 1991 1160">To read the report, visit www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need-programme-2015.aspx</p>

Area	Comments
<p data-bbox="64 322 244 415">Better Care Fund Support Programme</p> <p data-bbox="95 544 136 704" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 44</p>	<p data-bbox="292 322 1991 415">The Better Care Fund Support Programme aims to help areas to overcome the barriers to the successful implementation of the Better Care Fund plans across England in 2015/16. KPMG is one of the partners that successfully bid to deliver the programme, on behalf of NHS England, alongside the Social Care Institute for Excellence ('SCIE'), PPL Consulting and the Berkeley Partnership.</p> <p data-bbox="292 434 1742 462">The focus has been on practical implementation support to deliver better care for the local population. Support has included:</p> <ul data-bbox="292 481 1908 682" style="list-style-type: none"> <li data-bbox="292 481 1752 509">■ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them; <li data-bbox="292 528 1779 556">■ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development); <li data-bbox="292 575 1607 604">■ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and <li data-bbox="292 622 1908 682">■ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners. <p data-bbox="292 701 1013 729">A number of 'How to guides' have been developed on how to:</p> <ul data-bbox="292 748 1943 906" style="list-style-type: none"> <li data-bbox="292 748 1732 776">■ lead and manage Better Care implementation: www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf <li data-bbox="292 795 1943 858">■ bring budgets together and use them to develop coordinated care provision: www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf <li data-bbox="292 876 1881 906">■ work together across health, care and beyond: www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf <p data-bbox="292 925 1783 953">The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics:</p> <ul data-bbox="292 972 1069 1100" style="list-style-type: none"> <li data-bbox="292 972 493 1001">■ Joint working; <li data-bbox="292 1019 1069 1048">■ Section 75 Arrangements – Pooled and unpooled budgets; and <li data-bbox="292 1066 493 1095">■ Data sharing; <p data-bbox="292 1113 1970 1176">More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at www.scie.org.uk/about/partnerships-better-care.asp</p>



Area	Comments
<p data-bbox="64 315 265 501">KPMG publication titled: <i>Value of Audit – Perspectives for Government</i></p> <p data-bbox="95 722 136 882" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 45</p>	<p data-bbox="292 315 692 344">What does this report address?</p> <p data-bbox="292 362 1991 486">This report builds on the <i>Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting</i> – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.</p> <p data-bbox="292 505 1984 601">Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.</p> <p data-bbox="292 619 609 648">What are the key issues?</p> <ul data-bbox="292 666 1881 886" style="list-style-type: none"> ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government’s controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits <p data-bbox="292 905 1976 933">The <i>Value of Audit: Perspectives for Government</i> report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html</p> <p data-bbox="292 952 1929 1009">The <i>Value of Audit: Shaping the Future of Corporate Reporting</i> can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx</p>



cutting through complexity

Technical update

Page 46

Area	Level of impact	Comments	KPMG perspective
New local audit framework	 Medium	<p>The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies.</p> <p>NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.</p>	<p><i>We understand guidance is being prepared by CIPFA on the request of the NAO.</i></p> <p><i>We will also be preparing a briefing note for clients.</i></p>
CIPFA survey on infrastructure assets	 Medium	<p>On 26 August CIPFA sent a letter to Treasurers' Societies and Directors' of Finance groups for onward circulation to authorities drawing attention to CIPFA's survey to assess the readiness of bodies for the introduction of depreciated replacement cost (DRC) for highways infrastructure assets in 2016/17.</p> <p>The letter from CIPFA's Chief Executive is available here: www.cipfa.org/~/-/media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/150826-tia-survey-letter-signed-rw.pdf?la=en</p> <p>The online survey tool can be found here: www.surveymonkey.com/r/NGC8MXH</p> <p>CIPFA is encouraging responses from both accountants and highways engineers, either jointly or separately. The letter has also been sent to the Highways Asset Management and Financial Information Group (HAMFIG) to bring this to the attention of relevant authorities' highways engineers.</p>	<p><i>The Committee may wish to enquire of officers whether the online survey has been completed and any gaps be amended in the project plan</i></p>

Page 47

Area	Level of impact	Comments	KPMG perspective
<p>Reporting developments – Infrastructure assets</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 48</p>	<p>● Medium</p>	<p>CIPFA/LASAAC, the group that produce the <i>Code of Practice for Local Authority Accounting</i>, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015.</p> <p>The changes require local authorities to recognise the value of all transport infrastructure assets using the depreciated replacement cost method, i.e. the cost required to replace the asset with a new replacement depreciated over the life of the existing asset. Transport infrastructure assets include:</p> <ul style="list-style-type: none"> ■ roads, bridges, roundabouts and traffic calming measures; ■ footways, footpaths and cycle tracks; ■ tunnels and underpasses; and ■ water supplies and drainage systems, as they support the assets identified above. <p>Even non-highway authorities will be affected to the extent that footways etc are material to their accounts. Railway assets are not currently included in the proposals, although it is possible that these may be included in subsequent periods.</p> <p>CIPFA have issued a <i>Code of Practice on Transport Infrastructure Assets</i> which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website.</p> <p>Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015.</p> <p>The Whole of Government Accounts submission includes unaudited data on transport infrastructure assets. 2013/14 data indicates assets of over £400 billion will be accounted for on local authority balance sheets. However, only 93% of authorities provided this information, and of these less than 70% used actual inventory data to complete the return. This indicates that the sector faces a significant challenge in accurately identifying the assets it owns and will have to account for.</p>	<p><i>The Committee may wish to enquire of officers whether a project plan has been developed to address the requirements and review progress against this on a regular basis.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>The Local Government Association's 2015 Spending Review submission</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 49</p>	<p>● Medium</p>	<p>In June 2015, the Local Government Association (LGA) set out proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament.</p> <p>The submission focusses on five core issues originally highlighted in A Shared Commitment, published in early 2015. The LGA hopes that local government can work with central government to balance the nation's books while improving public services and the local economic environment by delivering new, transformed and high-quality local services while at the same time reducing costs to the public sector.</p> <p>The LGA believes the Spending Review should:</p> <ul style="list-style-type: none"> ■ enable wider integration of social care and health services to deliver savings and improve outcomes This requires the annual £700 million funding gap in social care services to be closed and a transformation fund worth £2 billion in each year of the Spending Review period be created to allow new ways of working to become commonplace. The Spending Review should also implement a single place-based budget for delivering all local services through a Local Public Services Fund as part of at least five devolution deals; ■ promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. The LGA is calling for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including: <ul style="list-style-type: none"> – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ help councils adequately resource and deliver high quality public services by transforming the business rate mechanism and providing a four year local government finance settlement; and ■ help councils focus on driving efficiency and value for money through an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period. 	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 50</p>	<p>● Low</p>	<p>With effect from 1 April 2015, certain provisions of the <i>Local Audit and Accountability Act 2014</i> (LAAA 2014) came into force and are applicable to auditors’ work for the year 2015/16. Whilst the <i>Audit Commission Act 1998</i> is transitionally saved for audit work on 2014/15, insofar as auditors are engaged in planning work for 2015/16, or possibly considering public interest reports (PIRs) to be made during 2015/16, they need to be aware of the provisions of LAAA 2014 that are already in force.</p> <p>Provisions affecting auditors’ work with effect from 1 April 2015 are:</p> <p>1) New duty to publish PIRs on audited bodies’ websites</p> <p>Under the new audit regime, there is an emphasis on the publication of relevant information on the relevant authority’s website. The following provisions are relevant to auditors carrying out work on 2015/16 if they decide to issue a public interest report during the audit.</p> <p>Under Schedule 7 LAAA 2014, the following matters must be published on the relevant authority’s website (if it has one):</p> <ul style="list-style-type: none"> ■ PIRs (relating to the relevant authority or a connected entity); ■ notice of a meeting to consider a PIR/written recommendation; and ■ notice summarising those decisions approved by the auditor as a result of consideration of the PIR/recommendation. <p>Where the relevant authority does not have a website, it is instead generally required to make the relevant publication “in such manner as it thinks is likely to bring the notice or report to the attention of persons who live in its area”. This could be, for example, in a local newspaper (as was required in certain cases under the previous legislation).</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 51</p>	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<p>2) Prohibition on disclosure</p> <p>The prohibition against disclosure that was previously to be found in section 49 of the <i>Audit Commission Act 1998</i> has been repealed and replaced by provisions in Schedule 11 of LAAA 2014. This change has not been transitionally introduced and auditors and local authority bodies need to be aware that this applies to all audits, irrespective of the year. Thus, any reference to the prohibition against disclosure needs to be to Schedule 11 and not section 49. There are no material differences between the two sets of provisions.</p> <p>3) Connected entities</p> <p>LAAA 2014 introduces a new concept into the audit regime, “connected entities”. Connected entities are bodies that are separate to the relevant authority, but are associated with the authority in such a manner that requires the authority to record financial information relating to the entity in its accounts.</p> <p>The full definition of “connect entities” is set out in paragraph 8 of Schedule 4 LAAA 2014.</p> <p>For the purposes of this Act, an entity (“E”) is connected with a relevant authority at any time if E is an entity other than the relevant authority and the relevant authority considers that, in accordance with proper practices in force at that time:</p> <ul style="list-style-type: none"> ■ the financial transactions, reserves, assets and liabilities of E are to be consolidated into the relevant authority's statement of accounts¹ for the financial year in which that time falls; ■ the relevant authority's share of the financial transactions, reserves, assets and liabilities of E is to be consolidated into the relevant authority's statement of accounts for that financial year; or ■ the relevant authority's share of the net assets or net liabilities of E, and of the profit or loss of E, are to be brought into the relevant authority's statement of accounts for that financial year. 	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</p> <p>Page 52</p>	<p>● Low</p>	<p>3) Connected entities (continued)</p> <p>Authorities have a number of duties in relation to their connected entities under LAAA 2014 beyond those which are expanded on below:</p> <ul style="list-style-type: none"> ■ Auditors have a right to access documents (at all reasonable times) relating to connected entities, as well as those relating to the “parent” relevant authority. The auditor can inspect, copy or take away documents. The auditor can also require people who are in possession or are accountable for the document (or have been in the past) to provide the auditor with any information or explanation that may be needed, and can require a meeting with such persons. Where a document is stored electronically, the auditor can require assistance from the relevant person at the connected entity or relevant authority in accessing the document. The connected entity must provide the auditor with such facilities and information as are reasonably required to carry out the audit functions. ■ The right to information and explanation, or to require a meeting, extends in relation to connected entities to: <ul style="list-style-type: none"> – any persons elected or appointed to an entity; – any employee of the entity; and – an auditor of the accounts of the entity. <p>Many of the provisions on PIRs and written recommendations in Schedule 7 apply to connected entities. Accordingly, auditors must consider whether a PIR should be made on any matter coming to their attention during the audit and relating to the authority and/or a connected entity. Similarly, an auditor may make a written recommendation to a relevant authority relating to a connected entity.</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)	<p style="text-align: center;">● Low</p>	<p>4) Power to call for information: exception for legally professionally privileged information</p> <p>Section 22(12) LAAA 2014 clarifies that the auditor’s right to information and documents cannot be used to compel disclosure of legally privileged information. If a person would be entitled to refuse to produce documents in legal proceedings in reliance on the doctrine of legal professional privilege, they are equally entitled to refuse to provide the relevant information or documents to the auditor. This is a notable new provision and auditors will need to bear this in mind in requesting sight of an audited body’s own legal advice. Any provision of such will be voluntary and cannot be compelled.</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>
NAO report – Local Government New Burdens Page 53	<p style="text-align: center;">● Low</p>	<p>This report from the NAO considers how well central government has applied the New Burdens Doctrine. This sets out how the government would ensure that new requirements that increased local authorities’ spending did not lead to excessive council tax increases. The focus of this report is more on central government but includes findings that may also be of interest to local government bodies.</p> <p>The report is available from the NAO website at www.nao.org.uk/report/local-government-new-burdens/</p>	<p><i>The Committee may wish to review the report to understand what impact this could have at the local government level</i></p>
NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals	<p style="text-align: center;">● Low</p>	<p>Wave 1 City Deals encouraged cities to develop capacity to manage devolved funding and increased responsibility. The report finds it is too early to tell whether the deals will have any overall impact on growth, and that the government and the cities could have worked together in a more structured way to agree a consistent approach to evaluating the deals’ impact. There have been early impacts from some of the individual programmes agreed in the deals. It has, however, taken longer for cities and departments to implement some of the programmes that required more innovative funding or assurance mechanisms.</p> <p>The government has set out its ambition to continue devolving responsibility for local growth to cities and other local places. The report highlights that both the government and local places can learn from the experience of Wave 1 City Deals to manage devolution to local places effectively.</p> <p>The report is available on the NAO website www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/</p>	<p><i>The Committee may wish to seek assurances how their Authority fit into the emerging City Deals.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>NAO report – Care Act first-phase reforms</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 54</p>	<p style="text-align: center;">● Low</p>	<p>The NAO’s report examines the first phase of the Department of Health’s new approach to adult social care, finding that it has been implemented well, but places new responsibilities on local authorities whose core funding is being significantly reduced. This could result in their having to delay or reduce services in the short term if demand for care exceeds expectations, presenting a risk to VFM which needs to be managed.</p> <p>Key findings within the report include:</p> <ul style="list-style-type: none"> ■ The Care Act will increase demand for assessments and services at a time when local authority provision has been falling and the number of people in need is rising. ■ The Department’s innovative joint governance with the sector has provided support to implement this challenging legislation. It has provided guidance materials and will give extra support to local authorities. ■ The Department’s tight time frame for the sector to act on final guidance and funding allocations has inhibited local implementation planning in some areas. ■ Despite the challenging timetable, of local authorities with adult social care responsibilities, 99% were confident that they would be able to carry out the Care Act reforms from April 2015. However, it will take longer to change the culture. ■ The Department might have underestimated the demand for assessments and services for carers. ■ The Department has learned from the problems it encountered in modelling the cost of Phase 1 and has improved its approach for Phase 2. ■ There is variation in the extent to which individual councils might have been over or underfunded. ■ A significant proportion of the funding which the Department is providing for the Care Act’s new burdens is not new money. The Department assumes that £174 million (40%) of Care Act funding will come through the Better Care Fund, from money previously allocated to clinical commissioning group budgets and existing local authority capital grants. ■ If costs exceed expectations, pressures will fall first on individual local authorities. The Department may not have sufficient information and does not have a contingency fund to avoid impacts on services. <p>The full report is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms/</p>	<p><i>The Committee may wish to seek assurances the issues raised in the report are understood and plans in place address the likely impact at their Authority.</i></p>

Area	Level of Impact	Comments
Care Act first-phase reforms – local experience of implementation	<p style="text-align: center;">●</p> <p style="text-align: center;">For Information</p>	<p>This report has been published by the National Audit Office and complements its earlier report on central government’s approach to the Care Act first-phase reforms.</p> <p>This further report provides examples from local case study areas which show how different authorities are addressing risks arising from uncertainty in demand from carers and self-funders.</p> <p>The report was published on 3 August and is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/</p>
Proposed changes to business rates and core grant	<p style="text-align: center;">●</p> <p style="text-align: center;">For Information</p>	<p>The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.</p> <p>The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that “the way this country is run is broken”.</p> <p>Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved, he said</p> <p>The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at 2p on the rate.</p> <p>The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.</p>



cutting through complexity

Appendix

Page 56

Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Issued
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	TBC
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	April 2016	TBC
Substantive procedures			
Report to those charged with governance (ISIRI 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC



cutting through complexity

Page 58

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.



cutting through complexity

Appointing your external auditor

Considerations for the local government sector

November 2015

Page 59



Appointing your external auditor

Background

In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission, the body that appointed external auditors to Local Government and NHS organisations (excluding Foundation Trusts). As part of this announcement, he also stated that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.

The Audit Commission closed on 31 March 2015. At that time contracts were already in place for local government and NHS external audit appointments that covered audits up to and including the financial year 2016/17. Within these contracts there is an option to extend for a maximum of three further years, i.e. up to and including the financial year 2019/20.

A consultation exercise with key stakeholder groups has recently been concluded on whether, and if so for how long, to extend these contracts. The Government decided that for local government bodies the contracts will be extended by one year, so incorporating the audit of the 2017/18 financial year. Contracts for NHS bodies will not be extended.

What does this mean for your organisation?

This decision means that you will assume the power to appoint your external auditor from the 2018/19 financial year onwards. This will be the first time you have made such an appointment. External auditors provide an important professional service and play a critical role in the stewardship of public spending, so it is vital that this new decision making power is exercised after careful consideration on how to proceed. Whilst you have different options open to you on how to approach this new power, you will need to comply with some specific requirements.

Appointing your external auditor

What should local authorities be considering?

In deciding what to do there are a number of considerations.

Do your current external auditors provide you with a good service?	If yes, do you need to change? If no, now you have an opportunity to do something about it.
How could we procure an external audit service to ensure we get best value?	You will have a number of options on how and when to procure your external audit service – these are summarised later in this document. Given the range of options it will be important to consider the best approach for your organisation.
What do we need to do before we start a procurement process?	The new regulations require you to have an Audit Panel, which will be responsible for recommending who your external auditor should be. This Panel must include a majority of independent (i.e. not elected) members and an independent chair. It makes sense for the Panel to have links with your audit committee.
When do we need to undertake a procurement exercise?	The regulations require you to have appointed your external auditor by 31 December in the year preceding the year of audit. As 2018/19 is the first year of these new arrangements, you will need to have appointed your auditor by 31 December 2017. You will need to undertake whatever procurement process you follow in good time – sometime between the Spring and Autumn of 2017. And before doing that you will need to have established your Audit Panel – by early 2017 would be sensible.
Who can I appoint to be our external auditor?	You will only be able to appoint an audit firm that has been authorised by the ICAEW to undertake ‘local audit work’. Local government auditing is highly specialised and you will need to ensure that your auditor has the necessary capability, experience and capacity to fulfil the statutory duties of a local government auditor.

Appointing your external auditor

Procurement options

Although local government bodies will all assume the same power to appoint their external auditor, it is likely that various options will be followed on how they go about doing this. The main options are set out below.

Re-appoint incumbent auditor	One option might be to continue with your current audit provider for a short period, say between one and three years. This would delay testing the market, although you could benchmark proposed fees for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and also avoid the 'rush to market' as large numbers of local authorities undertake procurement exercises within a short period of time, allowing you to procure later in a more settled audit market.
Stand-alone tendering	As with any other service, you could run your own procurement process. This allows complete autonomy over how and when you want this to be done, although you will need to ensure you follow the Regulations and consider any guidance issued by DCLG or other relevant bodies. However, you should consider whether you will have sufficient purchasing power on your own to obtain best value.
Combined procurement	You could join together with one or more neighbouring authorities to undertake a collective procurement exercise. This would enhance your purchasing power, but would diminish your autonomy over the process and you would need to consider how to retain sufficient sovereignty over decision making and whether this might complicate auditor independence considerations.
Existing frameworks	You could use one of the many existing government or public sector frameworks. These list firms who have already been shortlisted and therefore might speed up the process. You will need to ensure that the firms on any framework have been authorised by the ICAEW for local audit work, however.
Sector led procurement	The new audit legislation allows for a sector-led body (referred to as a 'specified person' in the Regulations) to undertake a bulk procurement process. If such an organisation emerges then this option provides an administratively easy route and would most likely have the greatest element of specialist audit procurement expertise. It would also provide good purchasing power, although with less autonomy than some other options, and might afford easier management of potential auditor independence issues than other combined procurements approaches. It will be the most similar option to the current arrangements.

Appointing your external auditor

What other factors should you consider?

When you are deciding who to appoint as your external auditor you will need to consider a range of factors. Key areas to consider are as follows:

- **Quality:** This is a vital consideration and should be appropriately weighted in any scoring methodology for assessing tenders. Relevant considerations include audit methodologies, systems and processes, staff training and expertise, and quality monitoring arrangements.
- **Experience:** Local government auditing is a specialist business and your auditor must have the necessary skills and sector experience. This is not just about understanding local authority financial reporting, but extends into auditors' value for money audit responsibilities and 'challenge' work.
- **Independence:** You will need to consider possible relationships with audit firms via non-audit work such as consultancy and tax advice. Independence is also an important mind-set for auditors to adopt, where you should be satisfied that your future auditor will be sufficiently challenging (and your current auditor should not be constrained in exercising their duties by any tendering process).
- **Organisational fit:** As with any service it is important to consider how the people you see in the audit team fit with your own organisational culture – i.e. can you work with these people.
- **Price:** Like any other out-sourced service you need to obtain good value through a competitive audit fee. However, best value does not mean the cheapest quote. The fee must be sufficient to provide a good quality service taking account of the scale, nature and risk profile of your organisation, and also the requirement for your external auditor to comply with auditing standards and other statutory duties.
- **Other services:** Although ethical standards provide limitations, you should consider what other services you might want your auditor to perform, whether that is other assurance services (e.g. certifying grant claims) or more added-value services.

Appointing your external auditor

What next?

There is still plenty of time before you appoint your external auditor for the first time, but there will be a long lead up to that decision. It is therefore important to think about how your organisation should approach this in good time. We would suggest that you should be developing your procurement strategy and selecting your preferred approach during 2016.

It is likely that further guidance and support will be issued by DCLG, and potentially other organisations such as CIPFA, to help you with the decisions you need to make and how you proceed. We will continue to update you on key developments.

If you want to discuss this further please contact your audit Engagement Lead, Darren Gilbert.

Contact



Darren Gilbert

Director, KPMG LLP

Public Sector Audit

3 Assembly Square, Britannia Quay

Cardiff, CF10 4AX

Tel: +44 (0)29 2046 8205

Email: darren.gilbert@kpmg.co.uk



cutting through complexity

Page 65

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.

This page is intentionally left blank

Report to: **Audit Committee**
Date: **7 January 2016**
Title: **Update on Progress on the 2015-16 Internal Audit Plan**
Portfolio Area: **Support Services – Cllr S Wright**
Wards Affected: **All**
Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Brenda Davis** Role: **Audit Manager**
Robert Hutchins **Head of Partnership**
Contact: Brenda.davis@swdevon.gov.uk **01803 861375**
Robert.hutchins@swdevon.gov.uk **01392 383000**

Recommendations:

It is recommended that:

1. The progress made against the 2015/16 internal audit plan, and any key issues arising are noted.

1. Executive summary

- 1) The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2015/16 to the 6 November 2015, by:
 - Providing a summary of the main issues raised by completed individual audits; and
 - Showing the progress made by Internal Audit against the 2015/16 annual internal audit plan, as approved by this Committee in April 2015.

2. Background

The Audit Committee, under its Terms of Reference contained in South Hams Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2015/16 was presented to and approved by the Audit Committee in March 2015. Overall, good progress has been made against the 2015/16 audit plan. Progress in the period up to 31 August 2015 has included the finalisation of work carried out in 2014/15 and in completing assignments in accordance with timescales agreed with management.

3. Outcomes/outputs

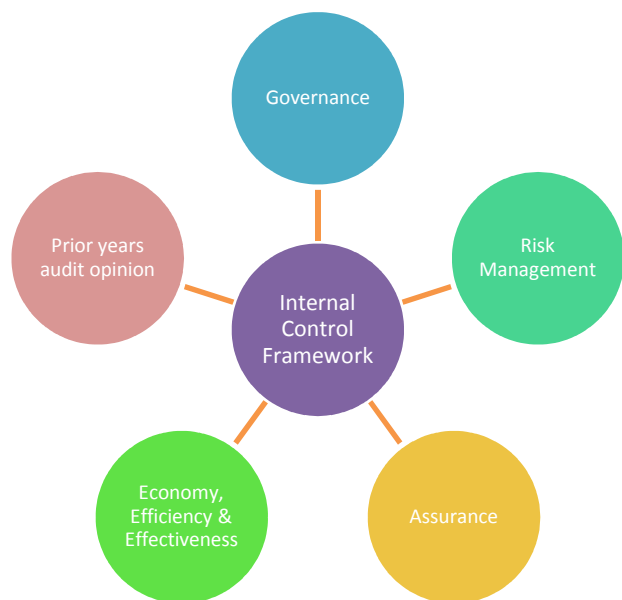
The Public Sector Internal Audit Standards require the Head of Internal Audit to provide a report providing an opinion that can be used by the organisation to inform its governance statement.

In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

Overall, based on work performed during 2015/16 and our experience from the current year progress and previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement

The above statement of opinion is underpinned by our consideration of:



Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the internal control framework.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans rests with management and these are reviewed during subsequent audits or as part of a specific follow-up process.

The 2015/16 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

Appendix C provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

Non Compliance with Contract or Financial Procedure Rules - there are no significant issues to bring to the attention of the Committee so far this year. Three applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

Fraud Prevention and Detection and the National Fraud Initiative
Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (The National Fraud Initiative - NFI) every two years and the Council are in the process of concluding its review of the data matches that were received as part of the 2014/15 exercise. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single persons discounts and creditor payments.

Irregularities - During 15/16, Internal Audit have provided advice and support to an investigation into alleged misappropriation of Council assets. The matter is now in the hands of the Police.

4. Options available and consideration of risk

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

5. Proposed Way Forward

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

There are no separate appendices to this report.

Background Papers:

Annual Internal Audit Plan 2015/16 as approved by the Audit Committee on 12 March 2015.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A

APPENDIX B

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
MAS & Budgetary Control	6									
Banking Arrangements (see cash collection below)	5	■	■	■	■			■		Summary to Audit Committee – September 2015
Creditor Payments	10									
Payroll	10									
Council Tax	10									
Business Rates (NNDR)	10									
Benefits Payments	10									
Treasury Management	5									
Main Financial Systems	66									
Cash Collection (see banking above)	5	■	■	■	■			■		Summary to Audit Committee – September 2015
VAT	10	■	■	■	■		■			Summary in App B below.
Procurement and Contract Management	10	■	■	■	■			■		Summary in App B below.
ICT Service Operation	26									
Internet Monitoring	4	■	■	■	■		■			Issued as a combined report, summary to Audit Committee – September 2015
Email Monitoring	4	■	■	■	■		■			
Performance Management - PIs	10									
Performance Management –Data Quality	5									
Risk Management	15									

APPENDIX B

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion (final reports only)				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
T18 Transformation	10									
Leisure Centres	10	■								
Marketing & Tourism	2	■	■	■	■		■			Summary in App B below.
Household Waste Collection	7									
Trade Waste	5	■								
Recycling	5	■	■					■		Draft report issued 6.11.2015
Grounds Maintenance	5	■	■	■	■		■			Summary in App B below.
Dartmouth Lower Ferry	8									
Street Scene - Car & Boat Parking	8	■								
Salcombe Harbour	8	■								
Housing Advice	5	■	■	■	■		■			Combined report issued, summary in App B below.
Homelessness	5	■	■	■	■		■			
Building Regulations	7									
Development Control (Enforcement)	10									At the request of management, review deferred to 2016/17.
Corporate Governance Annual Governance Statement (AGS)	6	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to June 2015 Audit Committee under separate cover.
Corporate Governance (inc Gifts & Hospitality)	5									
Culture & Ethics	6									
Coastal Communities Fund Accountable Body		■								Unplanned work – time to come from contingency - estimate 7 days based on 2014/15 work.

APPENDIX B

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final	Opinion (final reports only)				Comments
						High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Grants –Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)		■								50 days unplanned work - audit time to be recharged to project to provide.
Counter Fraud Work	10	■	■				■			Draft report issued 5.11.15
Advice to Information Compliance & Other Groups	5									
Complaints	5	■	■					■		Draft report issued 15.10.2015
Business Continuity / Emergency Planning	5	■								
Follow Up of Previous Year's Audits	10	■				-	-	-	-	
Contingency (Unplanned) Advice	20	-	-	-	-	-	-	-	-	
Audit Management, including <ul style="list-style-type: none"> • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit 	18	■	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Annual Report represented Audit Committee on 25 June 2015.
Other Systems & Audit Work)										
Overall Total	345									

Page 15 of 15

Planned Audit 2015/16 – Final Reports

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers. In all cases (unless stated) an action plan has been agreed to address these issues.

Definitions of Audit Assurance Opinion Levels

High Standard

The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

Good Standard

The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

Improvements Required

In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.

Fundamental Weaknesses Identified

The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Planned Audit 2015/16 – Final Reports

Subject	Audit Findings	Management Response
VAT	<p>Audit Opinion</p> <p>Good Standard - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p>Conclusions There are a small number of areas where action could be taken to strengthen those controls already in place. These include ensuring that:</p> <ul style="list-style-type: none"> • There is sufficient experienced cover in the absence of the VAT Accountant; • The Partial Exemption calculation for each authority is calculated on a regular basis; • Officers provide valid VAT invoices for payments made by purchase card to allow VAT to be recovered; and • Bad debts are written off on a timely basis, allowing any output tax to be recovered. 	<p>The Council has recently recruited to a Level 6 Specialist Accountant post and arrangements will be put in place for training in VAT for this postholder, so that they are able to provide sufficient cover.</p> <p>The Level 5 Specialist Accountant has recently attended a course on the Partial Exemption calculation and regular calculations will be undertaken.</p> <p>The Level 5 Specialist Accountant will address this issue with staff to ensure VAT invoices are received.</p> <p>The Level 5 Specialist Accountant will address this issue to ensure bad debts are written off on a timely basis, allowing output tax to be recovered.</p>
Procurement	<p>Audit Opinion</p> <p>Improvements Required - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk.</p>	

	<p>Conclusions We are aware that the Corporate Procurement Officer has recently taken a report to the Executive Director, making recommendations as to the future direction of the procurement function, at both a strategic and an operation level and it is acknowledged that that report addresses a number of issues raised in our audit report.</p> <p>Recommendations include the need to ensure that:</p> <ul style="list-style-type: none"> • The electronic tendering system is used as an end to end audit trail of procurement activity, as well as a tool to monitor contracts, with consideration given to the benefits of purchasing the contracts management module; • The contracts register is brought up to date; • Planned training is delivered to officers with responsibility for awarding contracts; • A contract review is initiated to ensure that any services currently being supplied by a contractor who has not been engaged via the correct process are procured in line with Contract Procedure Rules and legislative requirements and any risks are mitigated; • The Councils' Corporate Procurement Strategy which is currently being worked on by the Devon Districts Procurement Group is updated. 	<p>Target is to roll the tendering system out for the start of the new financial year 16-17.</p> <p>The Corporate Procurement Officer has confirmed that work is underway to update the Contracts Register.</p> <p>Courses have been delivered in 4th quarter 2015 and more will be planned in during 2016 and ongoing thereafter.</p> <p>Support Services will review and prioritise based on duration and value of these contracts and the services they are delivering. The target for the completion of this exercise is end of Q1 16/17.</p> <p>The Corporate Procurement Strategy has been completed and is currently being adopted and implemented by the Councils.</p>
<p>Marketing & Tourism (Client)</p>	<p>Audit Opinion</p> <p>Good Standard - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p>Conclusions In former years the Council employed a small team to promote tourism in the area</p>	<p>The Estates Team will be reviewing the lease within the</p>

	<p>and operated tourist information centres in the main towns. However some years ago it ceased to deliver these functions as an efficiency saving. The Council now has minimal income and expenditure related to marketing and tourism services, the small sums involved being linked to the lease of the Engine House, Dartmouth, to the town's Tourist Information Company.</p> <p>Only one minor recommendation was made regarding the review rent charged.</p>	<p>next 6 months and will establish an appropriate market rent at the time of the lease renewal.</p>
<p>Grounds Maintenance</p>	<p>Audit Opinion</p> <p>Good Standard - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p>Conclusions The team work in partnership with other organisations, such as Kingsbridge in Bloom and Dartmouth Green Partnerships, an approach that has worked well, with Kingsbridge and Dartmouth having won a range of awards and trophies in recent years for their floral and horticultural displays.</p> <p>Some recommendations were made around the costing of works to ensure that the service can evidence that charges are consistent and cover the Council's costs and, that works invoices are raised in a timely manner.</p>	<p>Charging is to be reviewed as part of the 2016/17 GM work plan.</p> <p>The timely raising of invoices will be prioritised when the L4 specialist is in post, to ensure that financial procedures are complied with in future.</p>
<p>Homelessness and Housing Advice</p>	<p>Audit Opinion</p> <p>Good Standard - The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.</p> <p>Conclusions We have concluded that the Housing Advice team strive to ensure that the Homelessness legislation is adhered to, for both the Council and the homeless applicants. The service delivers robust housing advice and is steadily increasing the instances of households where their homelessness was prevented by a move to private rented accommodation.</p> <p>There have been a number of recent changes in the service area, including staff and a move to a single property management system and our report reminded</p>	

	<p>management of the need to ensure;</p> <ul style="list-style-type: none"> • That income is reconciled between the housing system and the general ledger; • That officers continue to have the relevant Disclosure and Barring Service checks; • That everyone is aware of the safeguarding and lone working arrangements; and • That there is a clear data retention process and all records include relevant data protection statements. 	<p>Agreed, we will discuss this with the accountant and ensure that the systems are reconciled. Agreed this will be checked for officers working within the section.</p> <p>Agreed, this is something that we will review and ensure that officers are aware of the guidance and that they have had appropriate training.</p> <p>Agreed, this needs to be considered for the service and forms updated as appropriate.</p>
--	---	--

Planned Audit 2015/16 – Work Complete (No Audit Report)

Subject	Comments
System of Internal Control (SIC), and Annual Governance Statement (AGS)	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2014/15 financial year. The S151 Officer presented the 2014/15 AGS to the Audit Committee on 30 July 2015 with the draft accounts.</p>
Exemptions to Financial Procedure Rules	<p>Three applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.</p>

This page is intentionally left blank