

**SOUTH HAMS DISTRICT COUNCIL**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>3 April 2014</b>
<b>REPORT TITLE</b>	<b>Response to Grant Thornton Publication – Audit Committee Update for South Hams District Council; and Update on the Future of Local Audit</b>
<b>Report of</b>	<b>Head of Finance &amp; Audit and S.151 Officer</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

The purpose of this report is to provide members with the responses to the questions posed in the Grant Thornton Publication – Audit Committee Update for South Hams District Council dated 16<sup>th</sup> January and presented to the January 2014 Audit Committee (Appendix A); and an update relating to the Government legislation (Local Audit and Accountability Act 2014) and Future of Local Audit following the disbanding of the Audit Commission and the new local public audit framework (Appendix B).

**Financial implications:**

None, within existing budgets.

**RECOMMENDATIONS:**

**That the Audit Committee considers the Head of Finance & Audit's responses to the question posed in the Grant Thornton publication – 'Audit Committee Update for South Hams District Council' (Appendix A), and the Update on the Future of Local Audit (Appendix B) .**

**Officer contact:**

For further information concerning this report, please contact:

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## **1. Grant Thornton – Audit Committee Update for South Hams District Council (Appendix A)**

- 1.1 Grant Thornton presented their publication – Audit Committee Update for South Hams District Council dated 16th January to the January 2014 Audit Committee.
- 1.2 This paper provided the Audit Committee with a report on progress in delivering Grant Thornton’s responsibilities as the Council’s external auditors. The paper also includes:
  - A summary of emerging national issues and developments that may be relevant to you as a District council;
  - A number of challenge questions in respect of these emerging issues which the Committee may wish to consider.
- 1.3 At the January 2014 Audit Committee, the Head of Finance & Audit offered to provide members with a formal response to the suggested questions on the following topics:
  - Council tax collection – data from value for money profiles;
  - Local Government Pension Scheme;
  - Local Government claims and returns 2011/12;
  - Future Councillors – where next for politics?
  - Spending Round 2013; and
  - 2014/15 Code of Practice.

The Grant Thornton summaries and the Head of Finance & Audit’s formal responses appear at Appendix A.

- 1.4 In addition Members requested copies of the material that Grant Thornton had made available on their website. The Chief Internal Auditor has forwarded these documents by email and provided paper copies where required.

## **2. DCLG - Future of Local Audit (Appendix B)**

- 2.1 On 9 May 2013 the Local Audit and Accountability Bill was introduced into Parliament. The Bill set out the Government’s proposals to disband the Audit Commission and establish a new local public audit framework. On 30 January 2014, the Local Audit and Accountability Act 2014 received Royal Assent.
- 2.2 Appendix B provides a summary of the Bill. The key messages are:

### *Independent Auditor Appointment Panels (IAP)*

- An Audit Committee can only act as an IAP if it already has an independent chairman, although an IAP can draw on an Audit Committee’s advice in carrying out its functions; and
- Several authorities may share an IAP.

### *Resignation and removal of auditors*

- The regulations set out the process to be followed if an authority wishes to remove its auditor, or if an auditor wishes to resign.

### *Eligibility and regulations of auditors*

- The names of those individuals assessed as competent to take primary responsibility for a local audit, on behalf of a firm eligible for local audit, will be published on the local audit register;
- In mirroring the regulatory framework for statutory audit, the recognised supervisory bodies for local audit will have in place rules and practices which must comply with specific guidance issued by the Financial Reporting Council.

### *Accounts and audit regulations*

- There was broad support for maintaining the current provisions, though also suggestions for particular improvements to the regulations.
- The Government intends to keep public inspection rights as they constitute an important local scrutiny and accountability measures.

2.3 The Government is working towards having finalised regulations on: the appointment of auditors and auditor resignation/removal, eligibility and regulation of auditors, and the conduct of local audit (consideration of report and recommendations of public interest reports). These will be ready to be laid in the summer.

## **3. LEGAL IMPLICATIONS**

3.1 Statutory powers: Accounts and Audit Regulations 2011 etc.  
Local Audit and Accountability Act 2014

## **4. FINANCIAL IMPLICATIONS**

4.1 None, within existing budgets.

## **5. RISK MANAGEMENT**

5.1 The risk management implications follow these considerations:

<b>Corporate priorities engaged:</b>	All
<b>Statutory powers:</b>	Accounts and Audit Regulations 2011 Local Audit and Accountability Act 2014
<b>Considerations of equality and human rights:</b>	No specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	No specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	No specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	No specific crime and disorder issues arising from this report.
<b>Background papers:</b>	Audit Committee January 2014: Agenda Item 7: Grant Thornton Publication - Audit Committee Update for South Hams District Council.

<b>Appendices attached:</b>	<b>Appendix A:</b> Head of Finance & Audit Response to the Grant Thornton Publication – Audit Committee Update for South Hams District Council; <b>Appendix B:</b> Future of Local Audit:: Responses (February 2014).
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### STRATEGIC RISKS TEMPLATE

No	Opportunity Title	Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
	Opportunity	To ensure the Council is addressing any issues which arise from audit publications in the year - both from Central Government and from our external auditor's Grant Thornton.	3	1	3		The Council has the appropriate procedures in place to fulfil this requirement.	The Head of Finance and Audit

Direction of travel symbols ↓ ↑ ⇄

## Local Government Guidance

### Council Tax Collection – data from the value for money profiles

The Audit Commission has released a briefing on Council Tax Collection which uses the data held in the VFM profiles tool. The VFM profiles can be used to consider:

- how the cost and rate of collection compares to different comparator groups
- how changes over time compare to the overall trends described in the briefing
- how council tax collection may be affected by local arrangements in the council tax reduction scheme.

#### Issues for consideration:

- **Has your Head of Finance & Audit reviewed the costs and performance of your authority against similar organisations?**

Yes this has been reviewed. The Council is in the top 10% nationally (12/13 figures) for the collection of council tax due (99%) and the collection of business rates due (99.2%).

The cost of collection is £10.39 per head of population against a District Council average of £10.14 per head of population.

- **Where issues have been identified, has an action plan been implemented?**

No issues have been identified.

The Transformation Programme 2018 will further reduce the costs of collection by service re-design.

### **Local Government Pension Scheme**

The Department for Communities and Local Government has launched a 'Call for Evidence' on the future structure of the Local Government Pension Scheme. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

The consultation closed on 27 September 2013.

#### **Issues for consideration:**

- **Has Head of Finance & Audit reviewed the consultation and assessed the potential impact?**

Yes the consultation has been reviewed. The consultation was around whether there should be fewer, larger pension funds and whether larger funds can access external management at lower costs. Historically, internal management has provided superior returns. Larger fund size would give local authorities the opportunity to use internal management to a greater extent than currently. Larger funds may provide the potential for improvements in scheme governance. Larger fund sizes may provide better opportunities for investment in certain asset classes. Larger funds will have bigger governance budgets, enabling better decision making.

- **Did your authority respond to the consultation?**

The Council supported the view of the Local Government Association which was expressed on local government's behalf collectively. This view was that provided such advantages are both demonstrated by other evidence submitted and can be cost effectively realised in a manner which minimises risk to local authorities, then reform which aims to result in fewer, larger funds should be supported. The Pension Fund is administered by Devon County Council.

### **Local Government Claims and Returns 2011/12**

In June 2013, the Audit Commission published 'Local government claims and returns 2011/12 – The Audit Commission's report on certification work'. The report includes information and commentary on the number and value of certified claims and returns; auditors' findings; the cost of certification work; and future certification work.

- while 2011/12 saw a fall in the value of amendments and number of qualification letters, this was largely due to fewer claims and returns requiring certification. Proportionally, the level of claims and returns amended or qualified rose, while the most significant scheme, housing and council tax benefits, saw both the value of amendments and number of qualification letters increase.
- authorities and grant-paying bodies should continue their work to ensure schemes' terms and conditions are complied with, particularly when schemes change significantly or are in their final year.

**Issue for consideration:**

- **What procedures does your Head of Finance & Audit have in place to ensure that grant schemes terms and conditions are complied with and that claims and returns are completed accurately?**

The Council has grant procedures and controls in place to ensure grant schemes terms and conditions are complied with. The last grant claims report from Grant Thornton was presented to the Audit Committee on 16 January 2014. It stated that two claims were audited and neither claim required amendment or qualification.

**Grant Thornton**

**'Future Councillors – where next for local politics?'**

Grant Thornton has sponsored the latest New Local Government Network (NLGN) research paper: *Future Councillors – where next for local politics?* Whilst more or less every aspect of what a council does is currently up for discussion, this is not the case for the role of local politicians. The report is a response to this discourse gap.

The report content is based on a series of workshops held earlier this year with a number of councillors from different local authority types, different regions and from different political parties. The workshops, which Grant Thornton attended, included a scenario-planning exercise which identified how councillors that fail to renew their democratic processes risk losing the support of their communities. The research also suggested that councils that did grasp the opportunities offered by technology and service redesign can become far more engaged with their communities, building efficient and co-operative models of local government focused on neighbourhood needs.

The report includes a chapter by Guy Clifton from Grant Thornton on the councillor's role in financial planning. The workshops identified that many elected members are keen to take a far greater role in financial planning at their authorities, particularly given the significant funding challenges being faced. During the workshops we explored the skills and capabilities that members need to effectively manage the budget setting process. These included: effective communication and stakeholder engagement, understanding financial planning tools and, perhaps most importantly, knowing what questions to ask.

**Issue for consideration:**

- **Are your elected members taking a greater role in financial planning and has the authority ensured that members are trained for the task?**

Specific financial refresher training is in the process of being organised for Members in April/May time this year and will focus specifically on budget setting and approval of the Final Accounts. Treasury Management training is also being organised for Members.

<b>Spending Round 2013</b>
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It was announced in the June 2013 spending round that the local government resource budget will be reduced by 10 percent in 2015-16.

*As Paul Dossett, Head of Local Government at Grant Thornton UK LLP, wrote on informationdaily.com, the Chancellor 'seemingly acknowledged local government's capacity to deliver the scale of savings achieved so far. No other spending department received such positive affirmation. The Chancellor's actions imply that local government leaders are more capable of meeting the national challenge than other parts of the public sector. Over the past three years, local government members and senior officers have tightened their organisational belts and most have shown they are able to deliver significant change. The government is placing continued reliance on their resourcefulness in order to help meet the fiscal shortfalls facing the broader public sector, and many in the sector recognise this.'*

*'In his speech, the Chancellor recognised the benefits that more collaborative working can bring, although not on the lines subsequently suggested by the LGA. The Chancellor called for more joined-up working between police forces, and between police forces and local authorities - with a £50m innovation fund to be established to support this work. He also called for greater collaboration between health and social care services, with £200m to be transferred to local authorities from the NHS in 2014-15, and a £3.8bn pooled budget in 2015-16. In addition, £35m is to be made available to local authorities in 2015-16 to help prepare for reforms to the system of social care funding, including the cap on care costs from April 2016. There is also the £200m additional funding to the Troubled Families programme being managed by the department for Communities and Local Government.'*

**Issues for consideration:**

- **Has your authority reviewed your medium term financial plan in light of the Spending Round announcement and considered the action to be taken? We would emphasise that for South Hams District Council, the preparation of the 2014-19 MTFP is already in progress.**

Yes. The report to the Executive on 23 January 2014 and the report to Council (Budget proposals 2014/15) set out the latest position. This showed that the Council is able to meet the projected budget gap over the next four years due to the savings from the Transformation Programme 2018 materialising in the 2016/17 financial year. This innovative Transformation Programme was approved by Members in response to the unprecedented scale of the financial challenges facing the Council.

- **How is your authority planning to work with other organisations in the public sector?**

The Council's Partnership Strategy sets this out in detail.

## Accounting and Audit Issues

### 2014/15 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2014-15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The significant changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period
- introduction of the new group accounting standards
- other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013-14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements*

- local government reorganisations and other combinations: clarification of the Code's requirements and alignment with other public sector bodies
- options for the “dry run” for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code.

CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements. Both consultations closed on Friday 11 October 2013.

**Issue for consideration:**

- **Has your Head of Finance & Audit reviewed the proposed amendments and assessed the potential impact?**

Yes this work has been addressed by the Chief Accountant who has attended various training workshops on the new Code of Practice. For example, IFRS 13 Fair Value Measurement states that for operational assets needed to provide services directly to the public, the measurement should be based on existing use value. Assets not subject to service or other constraints should be measured at fair value under IFRS13.

## **1 Background**

- 1.1 On 9 May 2013 the Local Audit and Accountability Bill was introduced into Parliament. The Bill set out the Government's proposals to disband the Audit Commission and establish a new local public audit framework. On 30 January 2014, the Local Audit and Accountability Act 2014 received Royal Assent.
- 1.2 The proposed draft regulations and policy statements were positively received by the majority of respondents.

## **2 Independent Auditor Panels**

- 2.1 The draft regulations, extend the definition of an independent panel member, set out the minimum membership of an auditor panel, and apply several existing local authority enactments to panels. The regulations also give the panel the function of advising on whether to adopt a policy on procurement of non-audit work from the auditor, and on the content of such a policy.
- 2.2 The Government will consider with the sector the development of guidance on how best to utilise the perspective and expertise of audit committees. However, we believe that it is right to have independent oversight in this area, which the audit committee, as a committee of the authority, cannot provide. The Act already allows an audit committee to act as an auditor panel if it has an independent chair and majority for these purposes. An auditor panel may also draw on an audit committee's advice in carrying out its functions, as of course may the authority.
- 2.3 The Government supports efforts by local authorities to achieve better value for money through joint procurement and we can confirm that several authorities may share an auditor panel. The Government intends that, for authorities opting-in to arrangements for national procurement, the requirement to appoint an auditor panel will not apply. We will consider with the sector guidance on the experience and skills to look for when recruiting panel members, and how best to recruit them.
- 2.4 The Government agrees that policies on non-audit work should build upon and reflect existing ethical standards for auditors, and will consider making this clear in further guidance for auditor panels.

## **3 Resignation and removal of auditors**

- 3.1 The regulations set out the process to be followed if an authority wishes to remove its auditor, or if an auditor wishes to resign.
- 3.2 The Government expects that resignation or removal of an auditor will be a very rare occurrence. The timetable provided is intended to give a reasonable period for each part of the process to be completed, balanced with the need to provide for a timely subsequent reappointment.

#### **4 Eligibility and regulations of auditors**

- 4.1 This section sets the minimum criteria that a local audit qualification must meet in order to be recognised, and the thresholds for defining major local audits.
- 4.2 The Act allows the Secretary of State to make regulations setting out the minimum requirements that a qualification must meet in order to be recognised for the purposes of local audit. It is important to note that holding an appropriate qualification is necessary but not sufficient on its own for an individual to take a key responsibility for a local audit.
- 4.3 In mirroring the regulatory framework for statutory audit, the recognised supervisory bodies for local audit will have in place rules and practices which must comply with specific guidance issued by the Financial Reporting Council. This guidance covers the experience and other criteria that individuals must have before being permitted to take responsibility for carrying out a local audit. The names of those individuals assessed as competent to take primary responsibility for a local audit, on behalf of a firm eligible for local audit, will be published on the local audit register.
- 4.4 In applying the framework in the Companies Act 2006 to the regulation of local auditors, the Government believes that there are sufficient safeguards to ensure that individuals have appropriate technical skills and experience and that firms have in place appropriate support mechanisms to ensure that suitably experienced and qualified auditors deliver local audits to the right standard.
- 4.5 Draft regulations that define which bodies would have their audits defined as a 'major local audit', and therefore subject to audit quality monitoring from the Financial Reporting Council's Audit Quality Review team, seem appropriate to capture the audits of significant local bodies.
- 4.6 The Government's view is that the proposed income and expenditure thresholds will result in a population of a sufficient size to allow flexibility for the Financial Reporting Council to choose a sample of audits to review as part of its annual monitoring programme

#### **5 Consideration of public interest reports or written recommendations by a relevant authority**

- 5.1 This section relates to the arrangements for relevant authorities to consider public interest reports or written recommendations to bodies currently excluded from these requirements. The proposal set out the Government's intention to modify the requirement for Port Health Authorities, Internal Drainage Boards, and other persons or bodies referred to in paragraph 29 of Schedule 2 so that they must consider a Report or recommendation "as soon as is practicable", rather than within one month of receipt.
- 5.2 The consultation also proposed to apply existing legislation on arrangements for public meetings to bodies which are not currently subject to such legislation. The Government intends to modify the requirements as proposed since over 90% of respondents supported the proposal.

### **Accounts and audit regulations**

- 5.3 There was broad support for maintaining the current provisions, though also suggestions for particular improvements to the regulations.
- 5.4 The Government intends to keep public inspection rights as they constitute an important local scrutiny and accountability measure. However, the Government also recognises that the low take-up of these rights may be due a lack of public information about them, as well as a consequence of the existing complex procedure for setting the inspection period. These issues will be addressed in the draft regulations proposed for consultation in May 2014.
- 5.5 The Government will give further consideration to the points raised by respondents in preparing the draft regulations for consultation.

### **6 The Government's next steps**

- 6.1 The Government is working towards having finalised regulations on: the appointment of auditors and auditor resignation/removal, eligibility and regulation of auditors, and the conduct of local audit (consideration of report and recommendations of public interest reports). These will be ready to be laid in the summer.
- 6.2 The Government also plans to issue a consultation on the other draft regulations in May. This consultation will cover: further regulations associated with smaller authorities, regulations to allow for the establishment of a sector-led body to procure/appoint local auditors, and Accounts and Audit regulations. The intention is to lay these regulations later on this year.