

South Hams District Council Audit Committee Update

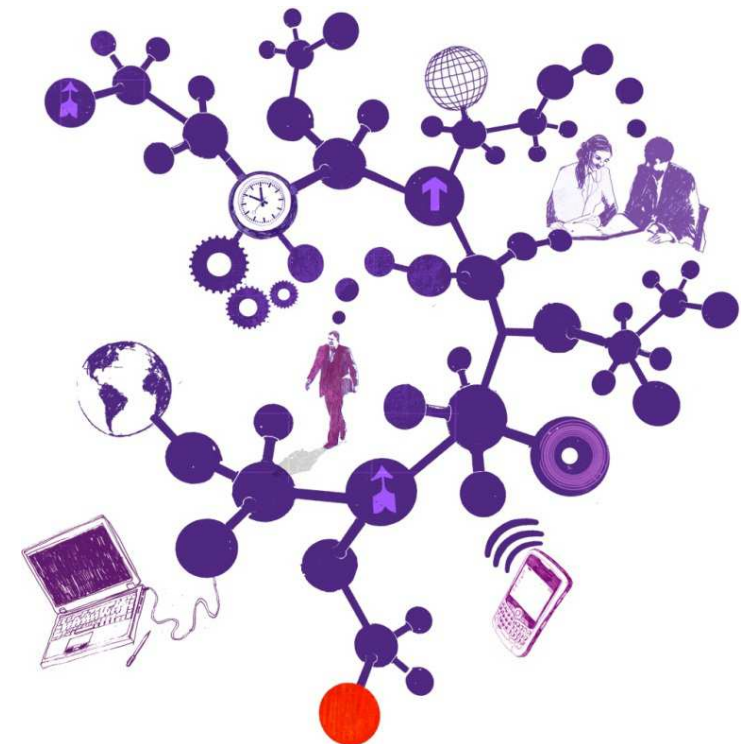
Year ended 31 March 2014

12 March 2015

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

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

Toby Bundy
Executive
T 0117 305 7836
E toby.bundy@uk.gt.com



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Introduction

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

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard: Local Government Governance review 2015
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Pulling together the Better Care Fund
- Where growth happens, on the nature of growth and dynamism across England

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

Barrie Morris	Engagement Lead	T 0117 305 7708	barrie.morris@uk.gt.com
Steve Johnson	Audit Manager	M 07880 456134	steve.p.johnson@uk.gt.com

Position at 23 January 2015

Work	Planned date	Complete?	Comments
<p>2014/15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014/15 financial statements.</p>	12 March 2015.	On the agenda.	Initial planning work is complete.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed work for the Value for Money conclusion. 	January to March 2015.	Complete	Our initial review of the Council's control's and our early substantive testing has been undertaken and is reported as part of the Audit Plan.
<p>2014/15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September 2015	Not yet due	The audit of the 2014/15 financial statements will be undertaken between July and September 2015 and reported to the September Audit Committee to meet the 30 September 2015 deadline.

Position at 23 January 2015 (continued)

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises a review of whether the Council has:</p> <ul style="list-style-type: none"> • 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. • 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. 	February 2015 to September 2015.	Not yet due	<p>An interim risk assessment was made as part of the Audit planning in February 2015.</p> <p>The detailed work will continue through to September 2015, when we are required to give our VfM conclusion.</p>
<p>Certify the Council's WGA accounts</p>	September 2015.	Not yet due	To be completed as part of the final accounts audit
<p>Grant claims and certification.</p> <p>We anticipate that the only claim that will require certification for 2014/15 will be the Housing benefit and council tax subsidy claim.</p>	June 2015 to November 2015.	Not yet due	Work will commence in June 2015 and will be completed by November 2015.

All aboard: Local Government Governance review 2015

Grant Thornton

Our fourth annual review into local authority governance aims to assist senior management and elected members of councils, fire & rescue authorities and police bodies to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Focusing on three particular aspects of engagement – within the organisation, with partners and with the public – the key messages from the report are:

- while more than 90% of those surveyed felt their organisations encouraged well-managed risk taking and innovation, 43% felt scrutiny committees were not challenging enough about the way authorities do things
- 84% of respondents said their organisations are now using or considering alternative delivery models but only 45% feel that scrutiny of service quality is sufficiently challenging
- 49% said the transition to police and crime commissioners has not had a positive impact on local partnership working arrangements, while 42% saw no difference in local healthcare governance as a result of councils' new public health role
- annual accounts and annual governance statement continue to expand in length, making them even more challenging for the public to read and understand
- only 30% of cabinet positions in local authorities are held by women, while over half our survey say members do not adequately reflect the demographic profile of the local population.

Alongside the research findings, the report highlights examples of good practice and also poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

The report *Local Government Governance review 2015: All aboard* can be found on our website

http://www.grant-thornton.co.uk/Global/Publication_pdf/Local-government-governance-review-2015-All-aboard.pdf

Hard copies of the report are also available from your Engagement Lead or Audit Manager.

Rising to the challenge

Grant Thornton

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Pulling together the Better Care Fund

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/>.

The reports asks 'Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?'

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Earlier closure and audit of accounts

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Issue for consideration:

- What plans has your s151 Officer put in place to address the earlier close date?

Management response:

- A detailed timetable for the 2014-15 Closedown of Accounts process is in place and this will be reviewed to see where earlier deadlines could be achieved in future years.

Financial sustainability of local government

Local government guidance

In November the National Audit Office published their report on the [Financial Sustainability of Local Government](#).

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO, however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.

The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

Kerslake report on Birmingham City Council

Local government guidance

Sir Bob Kerslake published his report, [The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council](#), on 9th December.

Commissioned by the Secretary of State this comes off the back of well publicised failures in Children's Services and the Trojan Horse issue in Birmingham Schools. It includes some tough messages for Birmingham City, but there are issues that resonate with all large local authorities.

The report's recommendations include the following.

- The Council needs an external Improvement Board to show that it is making the changes it needs to effectively serve its population.
- Internal governance needs fundamental change, including the relationship between members and officers, how it plans for the future, a stronger corporate core and a programme of culture change.
- The Council needs more political clarity, moving away from annual thirds elections and reducing the number of members. This includes redesigning the model for representative governance.
- Medium term financial planning needs greater clarity, and the Council cannot assume that it will get any additional Government support.
- In moving from a 20,000 people organisation in 2010 to a 7,000 people one by 2018 the Council needs fit for purpose workforce planning.
- Devolution within the Council and across the City needs simplifying and a greater outcome focus.
- Partnership working needs redefining, with the Council moving away from a 'Big Brother' approach.
- The Council needs to work with the other West Midland MBCs to make the combined authority a reality that delivers jobs and prosperity to the region.

Issue for consideration:

- Has South Hams District Council considered whether there are lessons or issues from the report that it also needs to action?

Management response:

- The Council will review the Kerslake report on Birmingham City Council to address this recommendation.

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11th December 2014.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.

Glossary

Abbreviation	Detail
BCF	Better Care Fund
CCG	Clinical Commissioning Group
CEO	Chief Executive Officer
CIPFA	Chartered Institute of Public Finance Accounts
DCLG	Department for Communities and Local Government
FD	Finance Director
HWB	Health and Wellbeing Board
IFRS	International Financial Reporting Standard
INLOGOV	Institute for Local Government Studies
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LAAP	Local Authority Application Panel
LEP	Local Enterprise Partnership
NAO	National Audit Office
NFI	The National Fraud Initiative
SAR	Strategic Asset Review
SFIS	Single Fraud Investigation Service
VFM	Value for Money



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