

Audit Committee
Somerset County Council
Progress Report and Update
Year ended 31 March 2017

June 2017

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Engagement Lead

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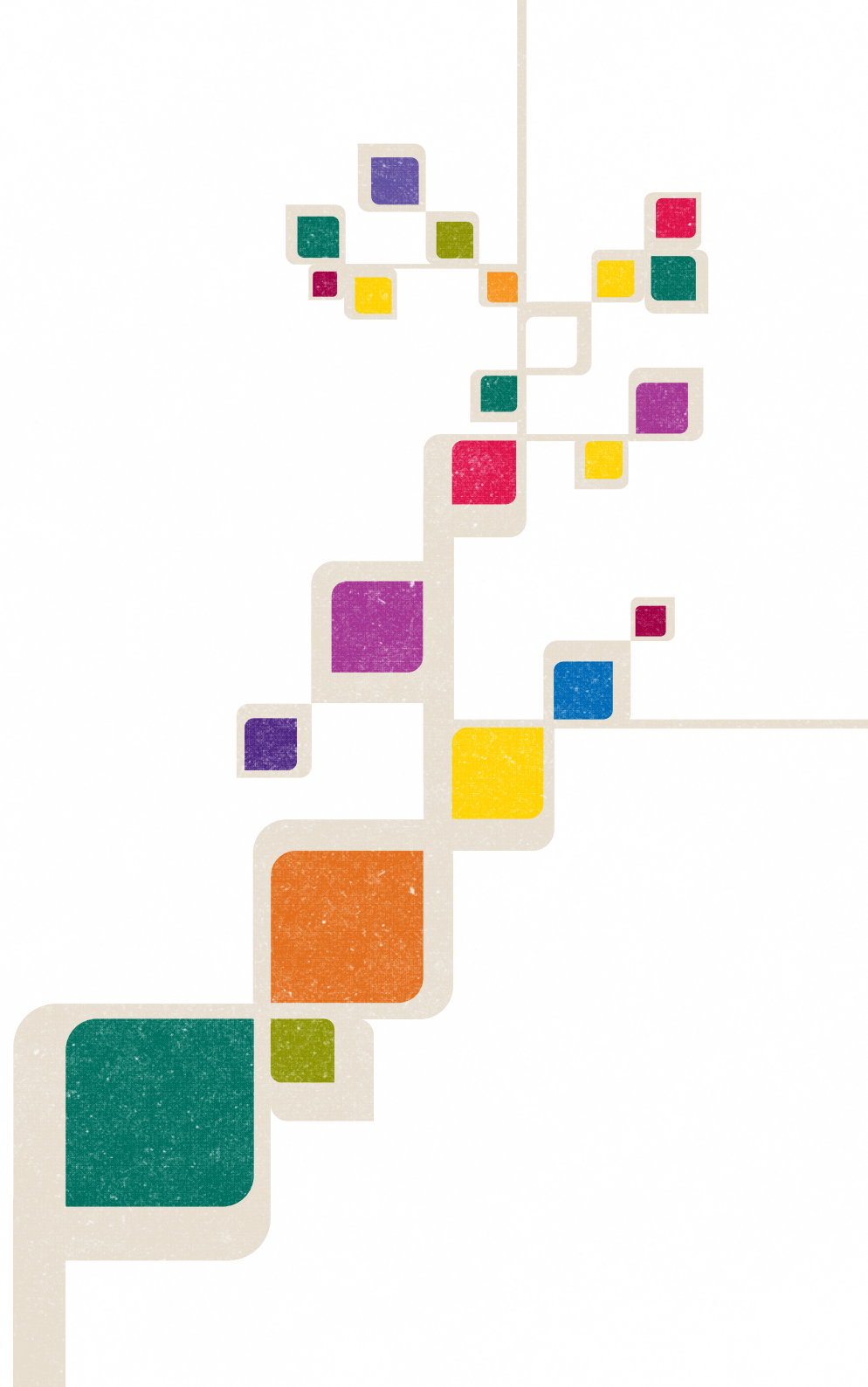
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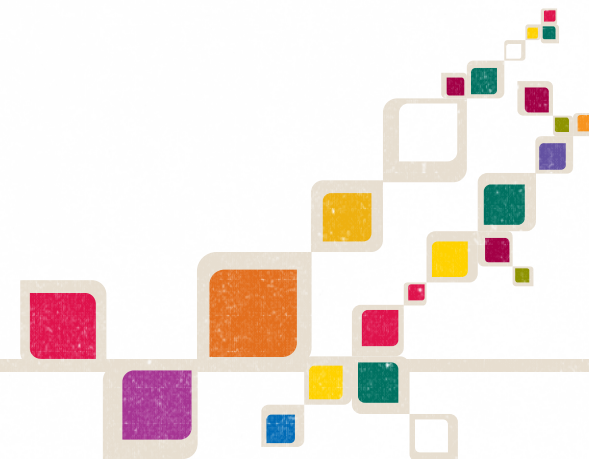
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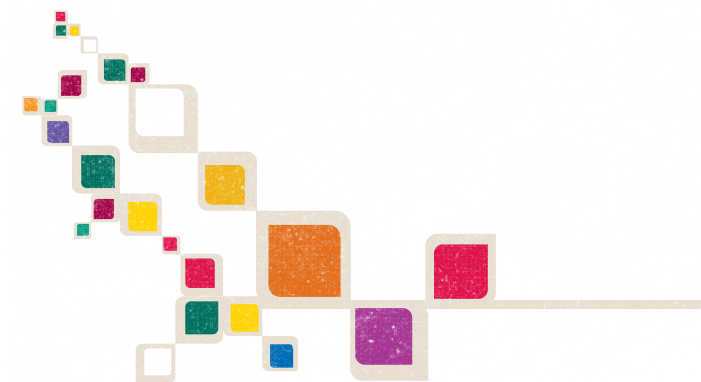
Introduction

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

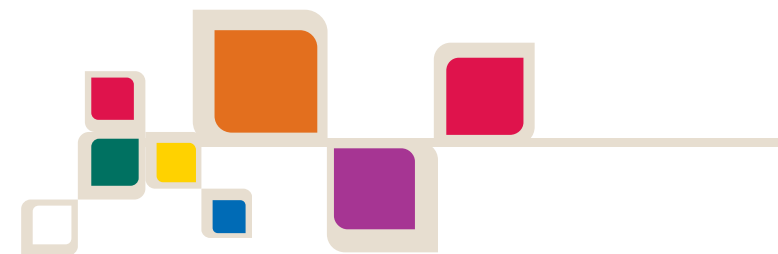
Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- The Income Spectrum (March 2017)
<http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- The Board: Creating and Protecting Value (May 2017)
<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>

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

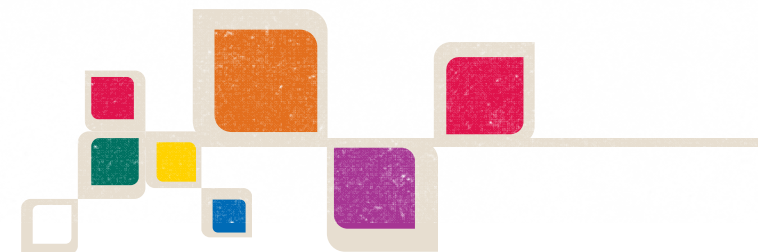


Progress at June 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	<p>The 2016/17 fee letter was issued in April 2016 and considered by the June 2016 committee.</p> <p>Our fee letter set out the scope of our 2016/17 work and included an outline timetable</p>
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.</p>	March 2017	Yes	The Audit plan was presented to the March 2017 Audit Committee.
<p>Interim accounts audit Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	January – February 2017	Yes	We have built on our knowledge of the Council following our audits over the last few years. Issues arising from our interim visit were reported in the Audit Plan.

Progress at June 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June 2017	No	We received your draft accounts at the end of May 2017 in accordance with the agreed timetable. We commenced our on-site visit on the 5 June 2017 and work is progressing. We will report our findings in our Audit Findings Report to the July 2017 Audit Committee.
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work is unchanged from 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	January – June 2017	No	<p>We have carried out an initial risk assessment to determine our approach and we report this in our Audit Plan.</p> <p>We will report our detailed findings in our Audit Findings Report.</p>

Sector issues and developments



Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published. http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

National developments

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

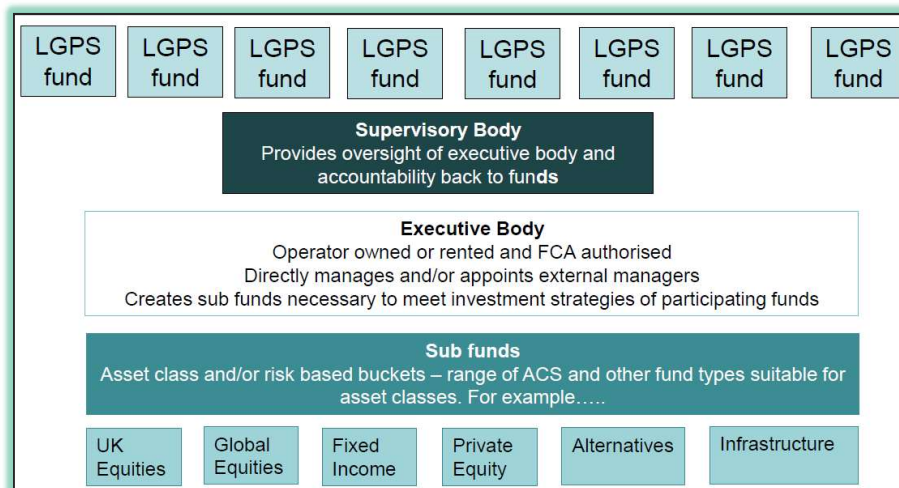
CIPFA in the recent article [Clear pools: the future of the LGPS](#) highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

National developments

Challenge question:

- Is your CFO keeping you up to date on developing arrangements in your area?

Link:
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



typical structure of LGPS Pool

Local authority accounts – a guide to your rights

In addition to his statutory duties and powers in respect of the Code of Audit Practice and guidance to auditors, the Comptroller and Auditor General has agreed to maintain and publish Local authority accounts – a guide to your rights

This document provides information on how people can ask questions and raise objections about the accounts of their local authority

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights>

LAAP BULLETIN 105 Closure of the 2016/17 Accounts and Related matters

This bulletin covers the closure of accounts and related matters for the 2016/17 year and provides further guidance and clarification to complement the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners* (Code Guidance Notes). It addresses frequently asked questions, and other issues that have arisen since the publication of the Code Guidance Notes.

The bulletin focuses on those areas that are expected to be relevant for most authorities. It is not intended to replace authorities' processes for identifying issues, but to complement them.

In addition, the bulletin addresses matters that will generally be applicable to authorities across England, Wales, Scotland and Northern Ireland.

Grant Thornton



The income spectrum

Helping local authorities to achieve revenue and strategic objectives to create a vibrant economies

Grant Thornton market insight

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our report gives local authorities the tools needed to maximise their ability to do so.

Our new research on income generation which includes our CFO Insights tool suggests that:

- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).
- To support local authorities as they develop income generation strategies, the report provides:
 - case study examples
 - local authority spend analysis
 - examples of innovative financial mechanisms
 - critical success factors to consider



The Board: creating and protecting value

Our new cross sector Board Effectiveness Report

In all sectors, boards are increasingly coming under pressure from both the market and regulators in terms of effectiveness and accountability. Building on the success of our cross sector audit committee effectiveness survey- Knowing The Ropes, the Grant Thornton Governance Institute extended its research to look at the effectiveness of boards across the corporate, public and not for profit sectors.

This report raise key questions that all boards should ask themselves to challenge their effectiveness. Their organisations may operate in different sectors and be subject to a variety of statutory and governance requirements, but they all share a common overriding principle: the governing body is a collective charged with developing the organisation's purpose.

Key messages:

- There is a strong future focus on boards
- Executive behaviours tend to dominate - not the best scenario for good governance or an organisation's future focus
- There are strongly held opinions about the relationship between the board and the executive which will impact on efficiency
- More than 88% of respondents see their executives as being strong leaders of the organisation
- There is a clear focus on organisational culture and values across all sectors – 93% see the executive board members modelling the values of the organisation
- Non-executives also need to live and breathe those values – only 82% of respondents agreed that the non-executives inspire and guide the executive to realise the organisation's purpose
- Only 75% of respondents feel that the recruitment process of non-executives is rigorous, well-documented or transparent
- Over 60% of board members believe that are adequate processes in place to evaluate performance

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This framework allows organisations to have a better understanding about where they are focusing their energies.

Download the report here: <http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

Grant Thornton reports

Challenge question:
Are you familiar with this report?



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