

# Audit Committee Update Somerset County Council

*Year ended 31 March 2017*

8 September 2017

**Peter Barber**

Director

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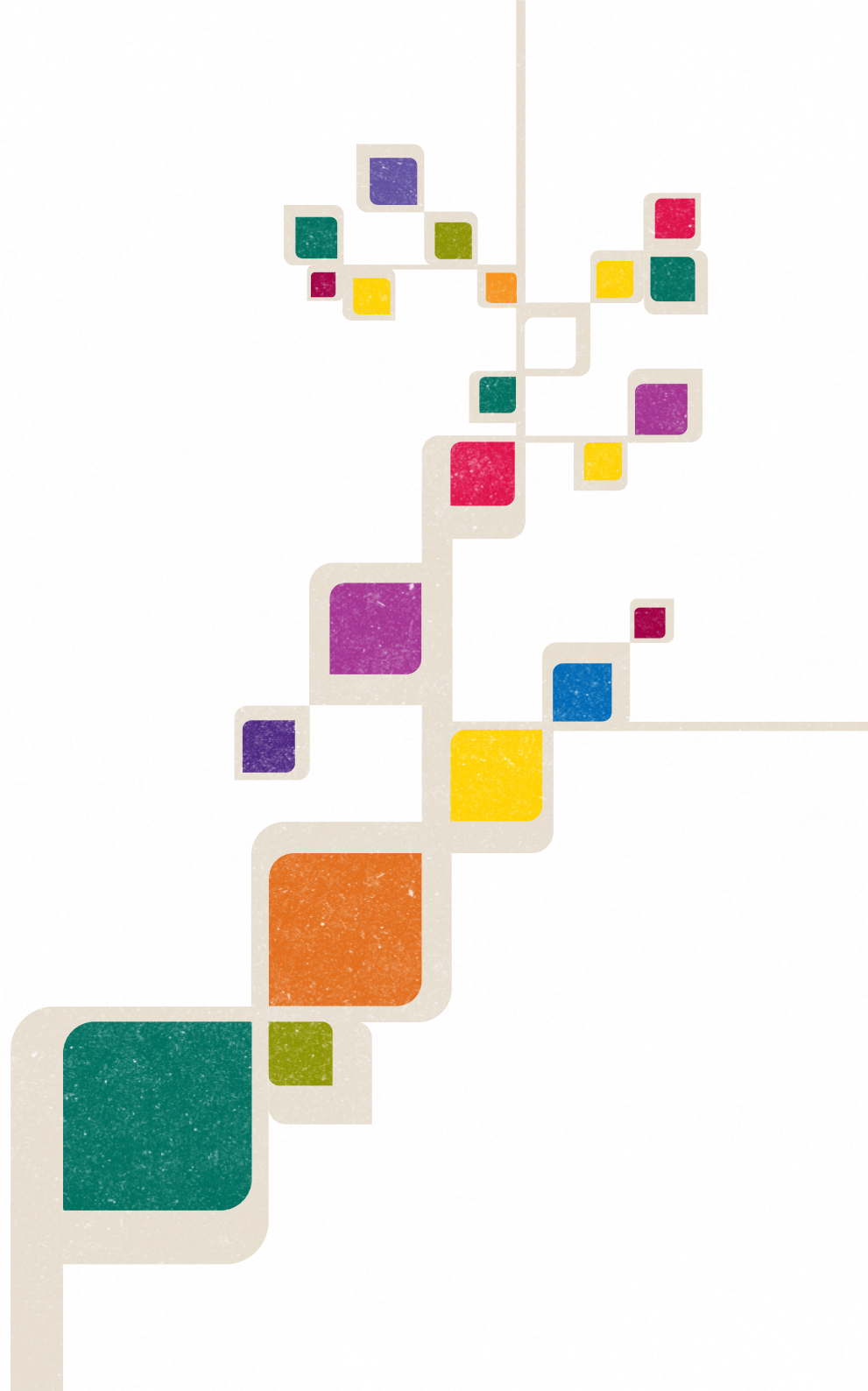
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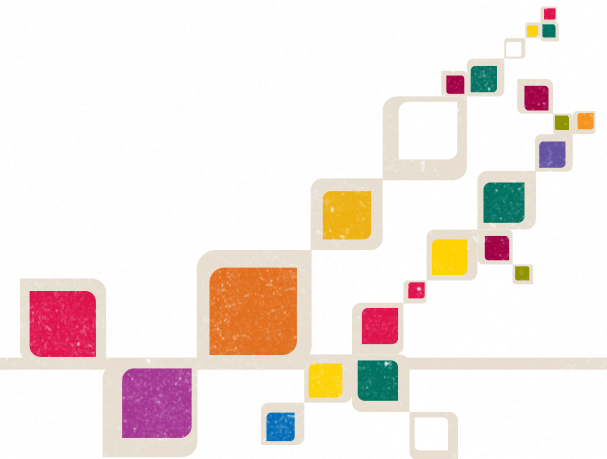
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business 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.



# Introduction

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

We have included an overall summary of progress in delivering this year's audit. We have also taken the opportunity to include short briefings on current issues and our latest publications.

Members of the Audit Committee can find further useful material on our website, [www.grant-thornton.co.uk](http://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.

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



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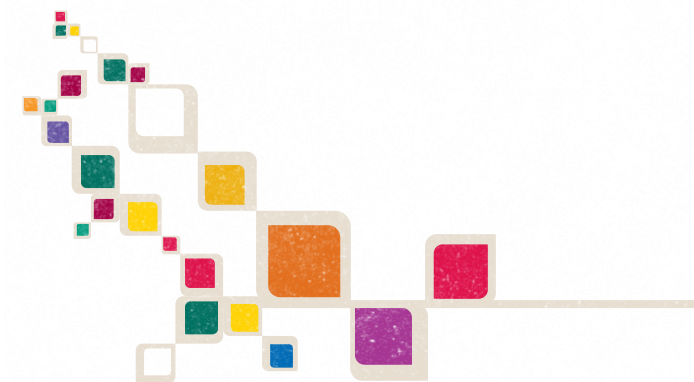


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# Progress at 8 September 2017



 **Progress against 2016/17 plan**  
 Planning started, interim audit visit in February 2017



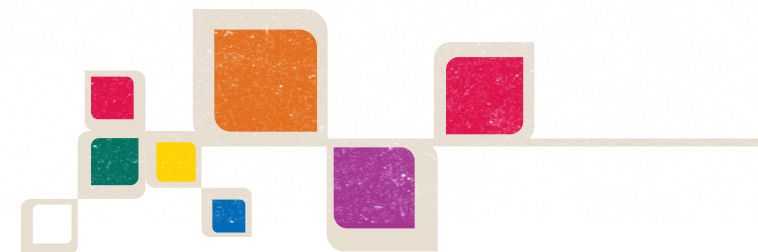
 **Opinion and VfM conclusion**  
 Target Completion 28 July 2017 achieved  
 Deadline 30 September 2017



 **Outputs delivered**  
 Fee letter & Progress Reports delivered to plan

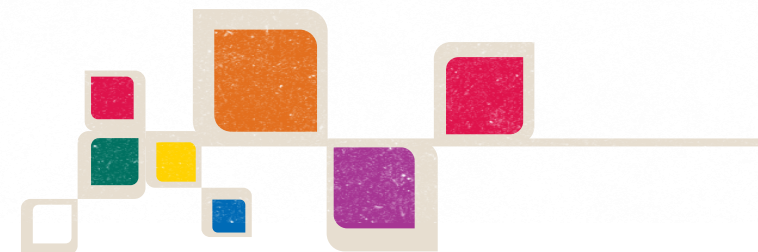
2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b>                      We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	We issued our fee letter for 2016/17 on 13 April 2016. The Council's scale fee for 2016/17 was set at £99,873, the same as 2015/16. There is no scale fee applicable for certification work in 2016/17.
<p><b>Accounts Audit Plan</b>                      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	We prepared our Audit Plan following completion of our interim audit visit as detailed below. The Audit Plan was presented to the Audit Committee on 30 March 2017.
<p><b>Interim accounts audit</b>                      Our interim fieldwork visit will include:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing.</li> </ul>	February 2017	Yes	We built on our knowledge of the Council following our audits over the last three years. The findings from our interim audit work were set out in our Audit Plan.

# Progress at 8 September 2017



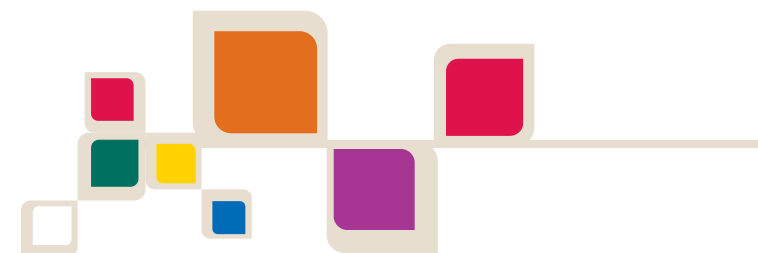
2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is set out in the guidance issued by the National Audit Office in November 2016. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion:</p> <p><i>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.</i></p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>Jan - July 2017</p>	<p>Yes</p>	<p>We carried out an initial risk assessment to determine our approach and reported this in our Audit Plan.</p> <p>Our focus was around risks in respect of:</p> <ul style="list-style-type: none"> <li>• the Council's financial position and longer term financial sustainability, and</li> <li>• the arrangements for securing improvements in Children's Services following the 'inadequate' Ofsted assessment.</li> </ul> <p>We reported the results of the work in our Audit Findings Report at the July 2017 Audit Committee and issued an 'except for' value for money conclusion due to the findings of the most recent formal Ofsted inspection.</p>

# Progress at 8 September 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</li> </ul> <p>The annual audit letter will be presented to the committee in October.</p>	May - July 2017	Yes	<p>We received the draft Financial Statements for audit at the end of May 2017 (ahead of the deadline of 30 June) and reported our findings to the July Audit Committee.</p> <p>We issued an unqualified opinion on the Council's financial statements on 27 July 2017, comfortably ahead of the deadline of 30 September.</p>
<p><b>Audit Certificate</b></p> <p>At 27 July 2017 we were unable to issue our 2016/17 certificate because:</p> <ul style="list-style-type: none"> <li>• the Authority had not prepared the Pension Fund Annual Report at the time we gave our opinion on the Council's financial statements and we were therefore unable to issue our report on its consistency with the pension fund financial statements.</li> <li>• we had not completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017.</li> <li>• we had not completed our consideration of an objection brought to our attention by a local authority elector.</li> </ul>	Target 31 December 2017	In part	<p>We have reviewed the Pension Fund Annual Report and are satisfied that it is consistent with the pension fund financial statements.</p> <p>Our Whole of Government Accounts (WGA) work is in progress and is scheduled to be completed in September 2017. We will provide an update to the Audit Committee on 21 September.</p> <p>The objector failed to respond to our requests for their address to confirm their electoral status. We have therefore concluded they no longer wish to raise an objection.</p>
<p><b>Other areas of work</b></p> <p>In previous years we were asked to audit the Teachers' Pensions Return, the School Centred Initial Teacher Training Annual Return (SCITT) and the Transport Claim. These were undertaken as separate audit engagements with additional fees charged as appropriate.</p>	October to December 2017	Not yet due	<p>We will discuss the audit arrangements for the 2016/17 returns with your officers to ensure that they are submitted within the necessary reporting deadlines.</p>

# Progress at 8 September 2017



2017/18	Planned Date	Complete?	Comments
<p><b>Fee Letter</b>                      We were required to issue a 'Planned fee letter for 2017/18 by the end of April 2017. This is the final audit year under the current contract.</p> <p>PSAA has awarded contracts to audit suppliers and is currently consulting on local appointments. Your audit supplier from 2018/19 will be confirmed by the end of December 2017.</p>	April 2017	Yes	<p>We issued our fee letter for 2017/18 on 18 April 2017.</p> <p>The 2017/18 scale audit fees were set at the same level as 2016/17, £99,873.</p>
<p><b>Accounts Audit Plan</b>                      We will issue a detailed accounts audit plan to the Council setting out our proposed approach to the audit of the Council's 2017/18 financial statements and the VFM Conclusion for the year. This will be issued upon completion of our audit planning.</p> <p>The statutory deadline for the issuing of the 2017/18 opinion has been brought forward by two months to 31 July 2018. We are discussing with your officers our plan and timetable to ensure that we complete our work by this earlier deadline.</p> <p>The production of the accounts to the earlier deadline in 2016/17 and the completion of the audit by 31 July 2017 puts us both in a strong position.</p> <p>We may also need to discuss and agree with you arrangements for the issue of the draft Audit Findings Report, in view of the time available to complete our work and your committee report deadlines.</p>	February 2018	Not yet due	<p>We will prepare our plan following completion of our interim audit. The Audit Plan will be presented to the February / March 2018 Audit Committee.</p>

# Technical Matters





# Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and forthcoming provisions for IFRS 9 and IFRS 15

## Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)

- amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

## Forthcoming provisions for IFRS 9 and IFRS 15

CIPFA/LASAAC has issued 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'. It sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

## Technical Matters

### Questions:

- Is the Council aware of the changes to the Code of Practice in 2017/18 and the forthcoming changes to lease accounting and revenue recognition?

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

# Sector issues



# Procurement of external audit services



## Procurement outcome

As a result of the highly successful procurement of auditor services, opted-in Local government and police bodies throughout England will collectively benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.

The results of the process announced on 20 June 2017 involve the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year to awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Contracts were awarded on the basis of most economically advantageous tender with 50% of the available score awarded to price and 50% awarded to quality.

The procurement strategy, agreed by the PSAA Board in December 2016, sets out the basis on which the procurement of audit services was carried out.

Having concluded the procurement, PSAA will commence the process of appointing auditors to opted-in bodies. For more information on the auditor appointment process [click here](#).

## Sector Issues

### Finalising and confirming appointments

The PSAA Board will approve all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in mid-December. The Board's decision on the appointment of auditors is final. Following Board consideration, we will write to each audited body to confirm their appointment. We plan to send all confirmations on 18 December.

# Local Authority 2016/17 Revenue Expenditure and Financing

## Sector Issues

DCLG has produced a summary of Local Authorities' 2016/17 provisional revenue spending and financing. It notes that Local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure. The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.5 billion for all local authorities in England in 2016-17. This was 1.1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. 2016-17 was first year local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.8 billion (2.4%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central Government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.5 billion of this increase is due to the Greater London Authority.

The full report is available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/639755/Revenue\\_Expenditure\\_and\\_Financing\\_2016-17\\_Provisional\\_Outturn.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639755/Revenue_Expenditure_and_Financing_2016-17_Provisional_Outturn.pdf)

## Did you know....

This data set and many others are included in CFO Insights.

CFO Insights is the Grant Thornton and CIPFA online analysis tool. It gives those aspiring to improve the financial position of their organisation instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

# Grant Thornton publications



# Setting up a successful social enterprise

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

In this report we explore what social enterprises look like, the requirements for setting one up, how they should be managed to achieve success and how they can be ended.

We have complemented this with a range of case studies providing inspiring ideas from those that have been successful and some lessons learned to take into consideration.

## Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted existing models into social enterprises; for example where a greater focus on social outcomes has been identified

## Striking a balance between financial and social returns

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended. The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

## Grant Thornton publications

### Questions:

- Is your Council exploring options for delivery of services?
- Have you read our report?
- Have you downloaded our guide?

  
Grant Thornton  
Accountants & advisers

Setting up a social enterprise



<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

# A Manifesto for a Vibrant Economy

## Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breathe, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality.

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

## Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a [Vibrant Economy Index](#) to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people’s productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody’s ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

**Guy Clifton – Head of Local Government Advisory**

Grant Thornton publications

## Question:

- Have you read our manifesto?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf>

# The Board: creating and protecting value

In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation’s purpose.

Grant Thornton’s new report ‘The Board: creating and protecting value’ is a cross- sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This powerful tool provides a framework (see graph 1) with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

<b>Value creation</b>	
<b>Directorship</b> How well do the non-executives: <ul style="list-style-type: none"> <li>design, debate and decide the organisation’s future?</li> <li>inspire and guide the executive to realise the organisation’s purpose?</li> <li>provide support to the executives?</li> </ul>	<b>Leadership</b> How well do the executives: <ul style="list-style-type: none"> <li>Make decisions aligned with realising the organisation’s purpose?</li> <li>Inspire and motivate employees to realise the organisation’s purpose?</li> <li>model the values of the organisation?</li> </ul>
<b>Assurance</b> How well do the non-executives: <ul style="list-style-type: none"> <li>monitor financial, compliance and business indicators?</li> <li>ensure appropriate processes are in place to manage risk?</li> <li>have oversight of the executive team?</li> </ul>	<b>Management</b> How well do the executives: <ul style="list-style-type: none"> <li>set goals, creating plans and allocating resources to achieve them?</li> <li>effectively assign roles and responsibilities?</li> <li>Focus on day-to-day tasks and resources needed to deliver strategic aims?</li> </ul>
<b>Value protection</b>	

Source: The Board: Creating and protecting value, 2017, Grant Thornton

Grant Thornton publications

**Question:**

- Have you read our report?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>



# International Consortium on Governmental Financial Management

## Introduction

Grant Thornton and the International Consortium on Governmental Financial Management (ICGFM) partner every other year to perform an international survey of Public Financial Leaders.

In 2015 the theme was innovation in public financial management. This year's survey has been designed to identify and describe emerging issues around transparency and citizen engagement – building on the themes highlighted in the 2015 report.

The insights will be published in a report later in 2017 and we would be delighted if you were able to spend some time completing the brief on-line questionnaire which can be found [here](#). Your Audit Manager will be able to provide you with a link to the survey if required.

Please note that the ICGFM and Grant Thornton will not identify, or attribute thoughts and quotations to, individual survey respondents in the final 2017 report. This preserves your anonymity, so please respond freely, honestly and openly.



We have again partnered with the ICGFM to survey Financial Leaders

### Question:

- Have you completed the ICGFM survey on transparency and citizen engagement?



**Innovation in public financial management**  
*in an increasingly complex and uncertain global environment*  
Global financial management leaders survey 2015





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