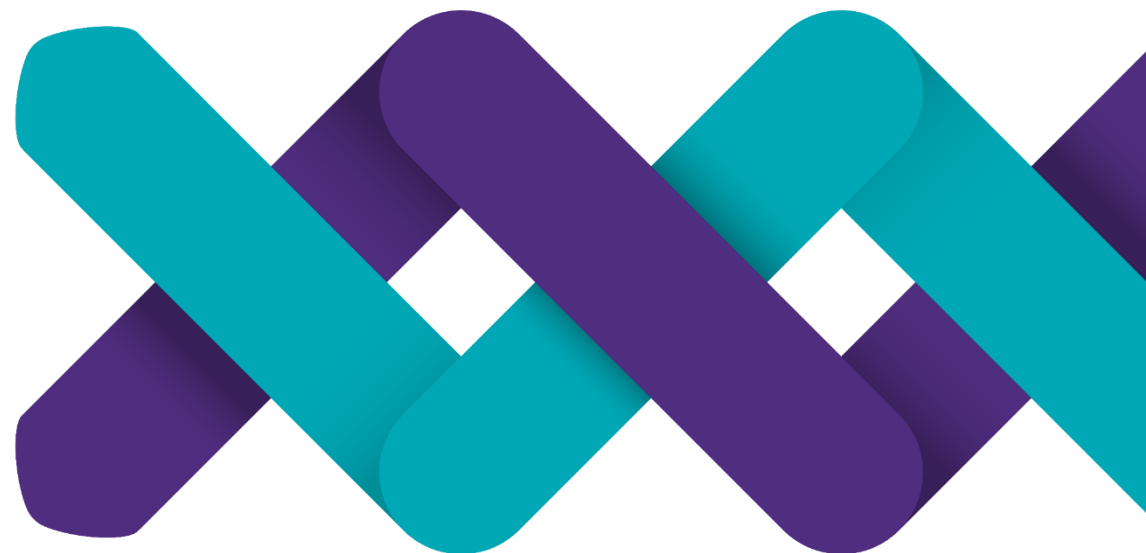


Audit Progress Report and Sector Update

Somerset County Council
Year ending 31 March 2018

January 2018



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Introduction



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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 as a Council and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

We are delighted to introduce to you your new Engagement Manager, David Johnson, who has previously worked with you as your in-charge auditor.

Members of the Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo below to be directed to the website.

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.

Grant Thornton

Progress at January 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and are due to commence our interim audit in January 2018. Our interim fieldwork visit will include:

- 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

We will report any findings from the interim audit to you in our Progress Report at the April Audit committee.

The final accounts audit is due to begin in June 2018 with findings reported to you in the Audit Findings Report by the deadline in July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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".

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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will begin our initial risk assessment to determine our approach in January 2018 and will report our work for the 2017/18 value for money opinion in the Audit Findings Report in July 2018.

Other areas

Certification 2016/17

We have completed our audit work on the Teachers Pension return with no significant issues identified.

Meetings

We continue to meet with Finance Officers as part of our quarterly liaison meetings and have regular discussions on emerging issues and developments and the impact of these and the financial statements.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our local government accounts workshop which is scheduled for 2 February in Bristol and the 6 February in Plymouth. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	January 2018	Complete
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	April 2018	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	September 2018	Not yet due

Sector Update

Local authorities are under pressure. You're grappling with severe budgets cuts, making it harder to keep vital services going. You're also being given new powers, which means you're doing even more to support local communities. And on top of all this, you've got to work within a system of internal and external relationships that's getting more complicated every day.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and healthcare sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
Government

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Grant Thornton Publication

Challenge question:

Is your Council considering the risks and governance issues for its commercialisation agenda?



Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Council considered the potential for an independent review of telecommunications and utility costs?

DCLG Consultation

DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closes on 22 December 2017 and may be accessed [here](#).

Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

DCLG consultation

- The Council has responded to the consultation



Independent Review of Building Regulations and Fire Safety

The Government has published the terms of reference for the independent Review of Building Regulations and Fire Safety, commissioned following the Grenfell Tower fire tragedy.

The DCLG press release states:

“This Review will urgently assess the effectiveness of current building and fire safety regulations and related compliance and enforcement issues, with a focus on multi occupancy high rise residential buildings. This will include addressing whether the government’s large-scale cladding system testing programme identified any potential systemic failures.

The Review’s 2 key priorities are to develop a more robust regulatory system for the future and provide further assurance to residents that the buildings they live in are safe and remain safe. While the Review will cover the regulatory system for all buildings, it will have a specific focus on multi occupancy high rise residential buildings.

Dame Judith Hackitt, a qualified engineer with strong regulatory background, is leading the Review and will draw on the experience of local government, industry, the fire sector, international experts and MPs. She will also engage with residents of multi occupancy residential buildings.

The Review will report jointly to Communities Secretary Sajid Javid and Home Secretary Amber Rudd. An interim report will be submitted in autumn 2017 and a final report submitted in spring 2018. The Review will co-operate fully with the Public Inquiry, and Dame Judith Hackitt will review her recommendations in the light of the findings of the Inquiry.”

The terms of reference state that the review will:

- map the current regulatory system (i.e. the regulations, guidance and processes) as it applies to new and existing buildings through planning, design, construction, maintenance, refurbishment and change management;
- consider the competencies, duties and balance of responsibilities of key individuals within the system in ensuring that fire safety standards are adhered to;
- assess the theoretical coherence of the current regulatory system and how it operates in practice
- compare this with other international regulatory systems for buildings and regulatory systems in other sectors with similar safety risks;
- make recommendations that ensure the regulatory system is fit for purpose with a particular focus on multi-occupancy high-rise residential buildings.

Click [here](#) to read the full terms of reference.

Sector Issues

Is the Council aware of the publication?



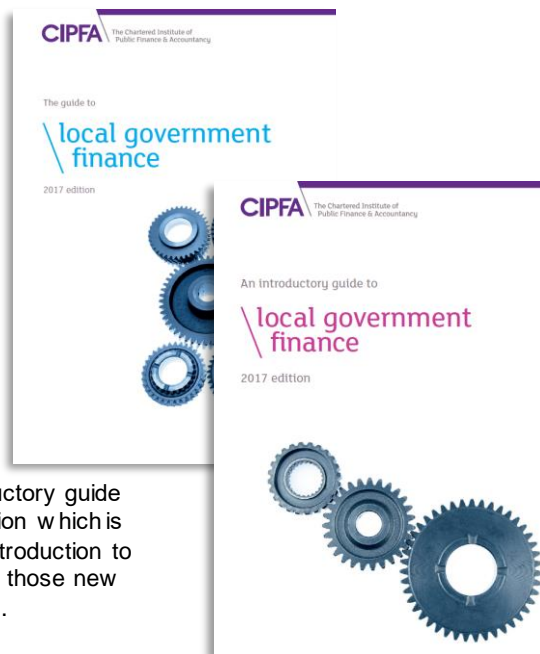
CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.



CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

CIPFA Publication

Challenge question:

Are these publications of use to you?



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

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

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

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

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

CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>

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.



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