South Somerset District Council

Minutes of a meeting of the **Audit Committee** held at **the Main Committee Room, Council Offices, Brympton Way, Yeovil BA20 2HT on Thursday 27 August 2015.**

(10.00 - 10.55 am)

Present:

Members: Councillor Derek Yeomans (Chairman)

Jason Baker	Tony Lock
Mike Beech	Graham Middleton
Carol Goodall	David Norris
Val Keitch	Colin Winder

Officers

Anne Herridge	Democratic Services Officer
Amanda Card	Finance Manager

Also Present:

Liz Cave	Director Grant Thornton UK LLP
Ashley J Allen	Manager Grant Thornton UK LLP

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22. Minutes (Agenda Item 1)

The minutes of the meeting held on 23rd July 2015, copies of which had been circulated were taken as read, and having been approved as a correct record were signed by the chairman.

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23. Apologies for absence (Agenda Item 2)

An apology for absence was received from Cllr Mike Best.

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24. Declarations of Interest (Agenda Item 3)

There were no declarations of interest made.

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25. Public question time (Agenda Item 4)

There were no members of the public present.

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26. Date of the next Audit Committee Meeting (Agenda Item 5)

Members noted that the date of the next Audit Committee would be held on Wednesday 30th September 2015 at 10.00am.

27. Treasury Management Performance Quarter 1 to June 2015. (Agenda Item 6)

The Finance Manager presented the report as detailed in full in the agenda.

In response to a query from Cllr Winder regarding Places for People Capital Markets in the Breakdown Investments Chart, she replied that Arlingclose had introduced them to SSDC and although they were an unknown entity they were currently doing very well and were being monitored by a ‘watching brief’.

Since the meeting the Finance Manager confirmed that Places for People Group specialises in the provision of a range of affordable homes for rent and sale. They are a property, leisure management, development and regeneration company in the UK. The £1million invested by SSDC is against a £3billion portfolio.

She also explained that the best deal possible was sought once loans had matured and Arlingclose had predicted an interest rate rise in the near future.

The Chairman thanked the officer for the in-depth report.

Members were content to note recommendations.

RESOLVED
That the Audit Committee

- Noted the Treasury Management Activity for the three-month period ended 30th June 2015.
- Noted the position of the individual prudential indicators for the three-month period ended 30th June 2015.

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28. Progress of External Auditors Grant Thornton (Agenda Item 7)

The Director of Grant Thornton introduced the report and the new Audit Manager, Ashley Allen. She explained that the team was now complete after the recent changes of staff. The 2014/15 final accounts audit was on track and there were no problems that she was aware of, the audit needed to be signed off by the 30th September 2015.

There had been 2 objections to the closing of the 2013/14 audit, details of which were explained to the new members of the Audit Committee: one complaint had not been upheld and the concluding statement to that effect had been circulated a few months ago. The other objection was nearing a conclusion, but the statement affirming the reasons needed to be signed off before being issued to the complainant. Once due process had been carried out the certificate closing the 2013/14 audit would be signed.

It was brought to member’s attention that a similar objection could possibly be raised again by the same complainant (as was her right) before the 2014/15 audit could be closed.

The Director of Grant Thornton pointed members to material on their website which Audit Committee members could download and may find useful. She was to meet with both the Assistant Director Finance and Corporate Services and the Assistant Director Legal and Corporate Services shortly regarding the Local Governance Review 2015 and relevant training focusing on the three key issues as detailed in the report: Governance of the organisation ; Governance in working with others and Governance of stakeholder relations.

The Director of Grant Thornton felt that local authorities needed to ensure that their core objectives and values were fulfilled through many other agencies, which suggested a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements were as transparent as possible for stakeholders.

She also referred to the national report: Evolution of Local Governance and Rising to the Challenge she considered that district councils tended to manage better in response to the challenge of austerity.

In conclusion she mentioned that Legislation had recently been passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit would be reduced by one month and two months respectively. Local authorities and their auditors would have to make real changes in how they work to ensure they could achieve this deadline.

In response, the SSDC Finance Manager replied that SSDC would not have an issue with the change of date as their accounts were usually produced by June each year. The Finance Team work with Grant Thornton throughout the year and they both worked hard to ensure that there were no risks. As requested a copy of the ‘Guide to Local Authority Accounts’ would be included with the minutes of this meeting.

The chairman concluded that SSDC was aware of the need to ensure that their core objectives and values were fulfilled through many other agencies and SSDC was already looking at integrating services and they already had a good scrutiny set up and a very competent financial team.

Members were content to note the report.

RESOLVED: That Audit Committee noted the Grant Thornton Audit Committee update.

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29. 2015/16 SWAP Internal Audit Quarter 1 Update (Agenda Item 8)

The Finance Manager explained that the report had been prepared for the Audit Committee to review the progress made on the 2015/16 Annual Internal Audit Plan.

In response to a question the Finance Manager explained that a great deal had been learnt regarding the financial control of Leisure Centres and the knowledge would be put to good use with any future involvement.

RESOLVED:
That the Audit Committee note the progress made.

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30. Audit Committee Forward Plan (Agenda Item 9)

After much discussion it was agreed to revert to the date of Thursday 22nd October as the date for the October Audit Committee, which would be chaired by the Vice Chairman.

The Director of Grant Thornton requested that the Certification Work Plan and Update report be moved to a later date on the forward plan, and would be discussed with the Assistant Director Finance and Corporate Services.

Members were content to note the forward plan.

NOTED

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Chairman

Grant Thornton

An instinct for growth™

A guide to local authority accounts

March 2014

Contents

Introduction

This guide is designed to help members of audit committees discharge their responsibilities for the financial statements. It aims to help them understand and challenge the accounts, supporting notes and other statements.

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. They also play a key role in ensuring accountability and value for money are demonstrated to the public.

However, local authority financial statements are complex and can be difficult to understand: they must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government. IFRS provides a comprehensive framework (over 3,000 pages of mandatory requirements) for the production of financial statements in the public and private sector. This framework is continually being refined.

We have prepared this guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

"It sounds extraordinary, but it's a fact that balance sheets can make fascinating reading."

Mary Archer
British scientist

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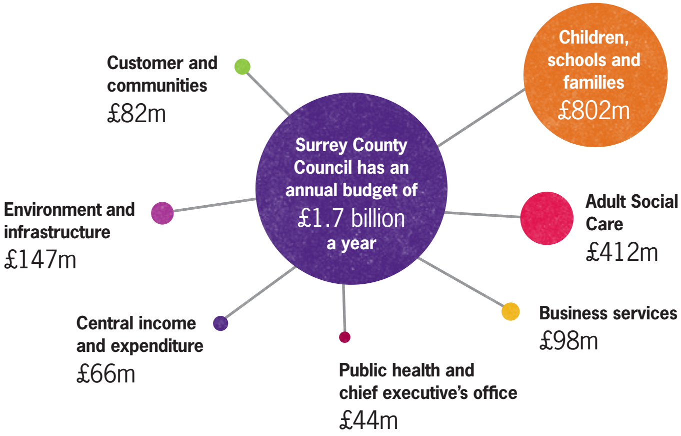
Explanatory foreword

The purpose of the explanatory foreword is to provide a commentary on the financial statements. It should include an explanation of key events and their effect on the financial statements.

The information included in the explanatory foreword should not be a surprise and should be familiar to you from the budget reports provided during the year. The explanatory foreword should therefore ideally also reconcile the year end financial position reported to members (the outturn) to the statutory financial accounts.

However, in a recent survey on governance, conducted by Grant Thornton, 40% of respondents did not agree that the explanatory foreword aids public understanding of local government accounts. Too often, explanatory forewords repeat key elements of the accounts and run the risk of being overly long, rather than provide a clear commentary in plain English. This indicates there is still some way to go before the explanatory foreword achieves its purpose.

Key financial information should be clearly explained and authorities should consider the best way to present it. Below is an example of the presentation of financial information that we consider to be helpful.



Challenge questions

1 Does the explanatory foreword provide a clear summary of the authority's financial performance and financial position at the year end?

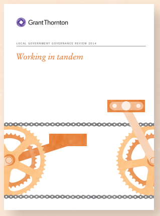
2 Is the summary in line with your expectations? Is the financial performance in line with budget reports? Are the key events described in the explanatory foreword those you expected to see?

3 Can you trace the figures to the financial statements? Are they consistent?

4 If last year's figures have been restated, is the reason clearly explained?

5 Is there a better way that this information could be presented or communicated?

For more information, see **Grant Thornton's Local Government Governance Review 2014**



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Annual governance statement

The annual governance statement (AGS) sets out the arrangements the authority has put in place to manage and mitigate the risks it faces when meeting its responsibilities. The AGS should give the reader a clear sense of the risks facing the authority and the controls in place to manage them.

While the AGS is prepared by the authority at the end of the year, it should be built up from processes designed, run and tested throughout the year. There should be no surprises for members of the audit committee as all of the issues described should already have been discussed. However, surprises can occur if the first sight of the document is not until June. We recommend making the AGS an iterative document which is presented in draft to audit committee members towards the end of the calendar year.

The AGS should be consistent with:

- the rest of the financial statements
- internal audit findings
- the results of any external inspections of the authority during the year.

Challenge questions

1 Is the content of the AGS consistent with your knowledge of the operations of the authority over the year?

2 Does the AGS succinctly describe the control environment in an understandable way?

3 In particular, does the AGS include:

- all significant risks that you were aware of during the year?
- the actions the authority is taking to address the identified risks?

Only 65% of respondents to our survey agreed that the AGS helps the public to understand how the organisation manages risk.

Movement in reserves statement

Reserves represent the authority's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable.

Usable reserves

- Result from the authority's activities
- Can be spent in the future
- Include:
  - general fund
  - earmarked reserves
  - capital receipts reserve

The level of usable reserves, the spending plans of the authority and other sources of funding will determine how much council tax needs to be raised.

The movement in reserves statement (MIRS) analyses the changes in each of the authority's reserves from year to year. It should be clear to see what has caused the movement in each reserve. The statement shows:

- **opening balances** – these should be the same as the previous year's closing balances
- **total income or expenditure for the year** – this should agree with the comprehensive income and expenditure account
- **statutory transfers between reserves** – these are made as the result of regulation
- **voluntary transfers between reserves** – these are made as the result of the authority's decisions
- **closing balances** – these should agree to those on the balance sheet.

Transfers between reserves should not result in a change in the overall level of reserves.

Unusable reserves

- Derive from accounting adjustments
- Cannot be spent
- Include:
  - pensions reserve
  - revaluation reserve
  - capital adjustment account

Statutory transfers are adjustments that are made to usable reserves to:

- remove transactions that are required by accounting standards
- add transactions required by statute.

For example, accounting standards require depreciation to be charged to the general fund to represent the cost of assets used in the delivery of services. Statute requires that all capital transactions are removed from the general fund. Depreciation is therefore taken out of the general fund and replaced with the minimum revenue provision (MRP). The MRP represents the authority's estimate of how much it should contribute to capital expenditure each year and is approved by members at the start of every year.

Voluntary transfers include the earmarking of reserves. Members may choose to earmark reserves, putting aside cash to deliver specific longer-term objectives, such as the replacement of vehicles, plant and equipment. The purpose and usage of each earmarked reserve should be clearly set out.

Challenge questions

1. Are the movements in the two types of reserves shown in separate tables?
2. Do the opening balances agree with last year? Have any restatements been clearly explained?
3. Do the figures in the MIRS agree to the comprehensive income and expenditure statement?
4. Can you trace the figures in the MIRS to the relevant notes? Do the notes adequately explain the major movements?
5. Are the purposes of the material earmarked reserves consistent with the authority's objectives and the authority's decisions?

For more information, see **Grant Thornton's Approving the MRP Policy**


Grant Thornton
Approving the minimum revenue provision policy

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Comprehensive income and expenditure statement

The comprehensive income and expenditure statement (CIES) reports on how the authority performed during the year and whether its operations resulted in a surplus or deficit.

The CIES is sometimes described as a ‘film’ of all the transactions in the year. It includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all sources of income received and accrued in the year. Accrued expenditure represents the value of goods or services received by the authority by 31 March which have not been paid. Similarly, accrued income represents income due, but not yet received.

The CIES shows the accounting position of the authority before statutory overrides are applied. It analyses income and expenditure based on services. This means that it does not have the same headings you see in commercial financial statements.

The standard format of the CIES means that it will differ from the layout in your budget book, which will be based on your authority’s own activities and internal reporting needs. A note to the accounts should reconcile the figures reported internally to those included in the CIES.

Five broad sections within the CIES

Cost of services	Presented in a standardised format as set out by the 'Service reporting code of practice for local authorities'. Includes service specific income and expenditure. Any large and/or unusual items which may affect the reader's view of the accounts should be disclosed separately.
Other operating income and expenditure	Includes the surplus or deficit from the sale of property, plant and equipment.
Financing and investment income and expenditure	Includes interest payable and receivable.
Taxation and general grant income	Includes revenue from council tax and the revenue support grant.
Other comprehensive income and expenditure	Items which are not allowed to be accounted for elsewhere in the CIES, such as increases in the value of land and buildings and changes in the actuarial assessment of pension liabilities.

Challenge questions

1. Does the CIES reflect the financial performance of your authority as you know it?
2. Have there been significant changes year on year? If so, are these clearly explained?
3. Is there a detailed note to reconcile the CIES to budget reports? Is it easy to find? Can you trace the figures through?

Balance sheet

The balance sheet is a 'snapshot' of the authority's financial position at a specific point in time, showing what it owns and owes at 31 March.

The balance sheet is always divided into two halves that should, as the name suggests, balance:

- assets less liabilities (the top half)
- reserves (the bottom half).

Non current assets including: • **property, plant and equipment** • **heritage assets** • **intangible assets** • **investment property**	Non-current assets have a life of more than one year. For most authorities the biggest balance by far is property, plant and equipment. These are tangible assets that are used to deliver the authority's objectives. With some exceptions they need to be shown at a value based on market prices. Changes in valuations are matched by changes in reserves (generally the revaluation reserve). The cost of property, plant and equipment is spread over the period in which it is used by charging depreciation.
Current assets	Includes cash and other assets that, in the normal course of business, will be turned into cash within a year from the balance sheet date. Other assets include investments, non-current assets held for sale, inventories and debtors.
Current liabilities	Comprises short-term borrowing, trade creditors, amounts owed to other government bodies and receipts in advance. Receipts in advance arise when the authority receives income this year for expenditure it will incur, or services it will provide, in future years.
Long-term liabilities	Includes borrowings, any amounts owed for leases and private finance initiative (PFI) deals. There will also be an estimate for the cost of meeting the authority's pension obligations earned by past and current members of the pension scheme.
Provisions	Represent future liabilities of the authority, but there is uncertainty about how much the authority owes or when it will have to pay.
Reserves	These are usable and unusable reserves.

Challenge questions

1. Have any significant changes between years been sufficiently explained?
2. Are there clear references to the notes where more detailed information is available?
3. Are the changes in property, plant and equipment what you would expect, based on any major disposals of assets, the authority's capital programme and movements in market prices?
4. Are movements in investments and borrowing consistent with the authority's treasury plans and with the cash movements in the cash flow statement?
5. Are the reasons for provisions and details of how they have been calculated clearly shown?
6. Do the reserves in the balance sheet agree to the balances in the movement in reserves statement?

Other statements

A number of other statements will be included within the financial statements, though not all will be relevant to every authority.

Cash flow statement	Sets out the authority's cash receipts and payments during the year, analysing them into operating, investing and financing activities. Cash flows are related to income and expenditure, but are not equivalent to them. The difference arises from the accruals concept, whereby income and expenditure are recognised in the CIES when the transactions occurred, not when the cash was paid or received. The Local Authority Code of Practice allows two different methods of presentation to be used, and therefore formats may vary between neighbouring authorities.
Collection fund	Shows the transactions in respect of council tax and business rates during the year.
Housing revenue account	Shows the transactions in respect of council housing during the year. It is ring-fenced, so it cannot subsidise or be subsidised by other activities.
Pension fund accounts	Included within the financial statements of a pension fund administering authority, such as a county or unitary council. Shows the transactions and net assets/liabilities of the pension fund as a whole.
Group accounts	Prepared if the authority has a significant subsidiary, such as a local authority trading company. Shows the combined income and expenditure and balances of all the constituent bodies.

Challenge questions

1. Have any significant changes between years been sufficiently explained?
2. Are there clear references to the notes where more detailed information is available?

Additional disclosures

The notes to the financial statements are generally the least read part of any set of accounts. This is because they appear complicated and are rarely written in plain English.

However, additional disclosures include important information and provide the context for the figures in the primary financial statements.

Accounting policies	Set out the accounting rules the authority has followed in compiling its financial statements, for example that land and buildings are shown at valuation rather than at cost. They are largely specified by International Financial Reporting Standards and the Local Authority Code of Practice. Authorities have limited discretion to amend them, but should: • provide additional information where needed • remove accounting policies that are not relevant or apply to immaterial amounts.
Critical judgments	Show the key areas where officers have made judgements about the application of accounting policies. For example: • classification of leases and public finance initiative (PFI) schemes • identification of provisions • impairment of assets. The aim is to highlight key areas of the accounts where others may have made different judgments about the accounting treatment.
Estimates	The authority may need to use estimates to value assets, liabilities and transactions. The major sources of estimation uncertainty should be disclosed if there is a significant risk the estimate will need to be materially adjusted next year.
Property, plant and equipment	Details about assets acquired and disposed of during the year, whether they have been revalued, the impact of any changes in value and the amount of depreciation charged.
Leases and PFI schemes	Set out how much will be paid annually to leasing companies and how much will be paid in total over the lifetime of the agreement.
Employee remuneration	Details of the pay of the most senior officers, all officers' remuneration, disclosed in bands, and the cost of any redundancies. Other notes show the annual cost and cumulative liabilities of pensions.
Contingent liabilities	Details of possible costs that the authority may need to meet, but has not charged to the CIES because it thinks that it will probably be able to avoid them. The most common contingent liability is for legal claims.

Challenge questions

1. Have you already seen and been able to comment on the proposed accounting policies?
2. Are you comfortable with the critical judgements disclosed?
3. Do the figures reported in the financial statements agree to those included in the relevant notes?
4. Are the notes easy to find and follow?
5. Is too much information included? Could it be better presented?

And finally…

Once you have completed your review of the detail, you may wish to reflect upon the financial statements as a whole and what could be done to improve the process for future years.

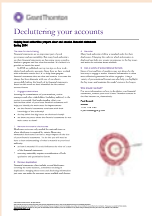
About the financial statements

1. Are they clear, concise and easy to follow?
2. Are they presented in the best format? Could graphs or diagrams be used to help explain information more easily?
3. Is detailed information on the most important items easy to find?
4. Are technical terms explained in plain English? Is there a glossary?
5. Is it clear how a reader could find out more information?
6. Where are the accounts to be published? Are they easy to find?

About the process

1. Does your authority recognise that producing robust financial statements is important for strong financial governance?
2. Has your authority set targets to produce shorter, clearer, earlier financial statements?
3. What support can you give your officers to meet these challenges? Do they have sufficient resources? Are they given enough support from senior management?
4. What support do you need to help you discharge your responsibilities? Are there any areas in which you need training?

For more information, see **Grant Thornton's Declutter your accounts – top 10 tips**



CIPFA's Financial statements: a good practice guide for local authorities

About us

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 25 locations nationwide. While we understand regional differences and can respond to needs of local authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by more than 185 partners and employing over 4,200 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well established market in the public sector, and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market, and are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients.

We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities.

This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector.

We take an active role in influencing and interpreting policy developments affecting local government and responding to government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

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