

# Governance Committee Progress and Update Report for South Ribble Borough Council

June 2017

**Mark Heap**

Engagement Lead

**T** 0161 234 6375

**E** [mark.r.heap@uk.gt.com](mailto:mark.r.heap@uk.gt.com)

**Simon Hardman**

Audit Manager

**T** 0161 234 6379

**E** [simon.hardman@uk.gt.com](mailto:simon.hardman@uk.gt.com)

**Richard Watkinson**

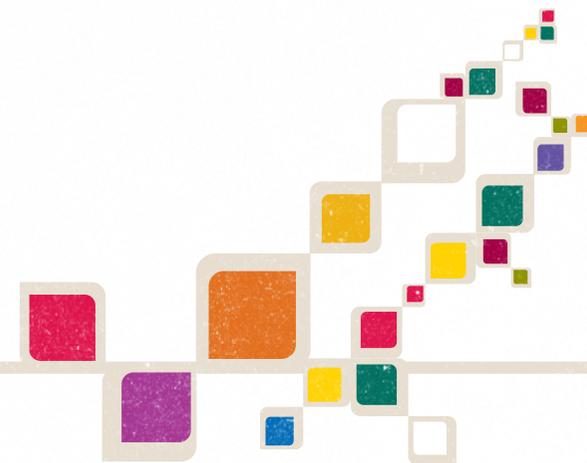
Executive

**T** 0161 234 6345

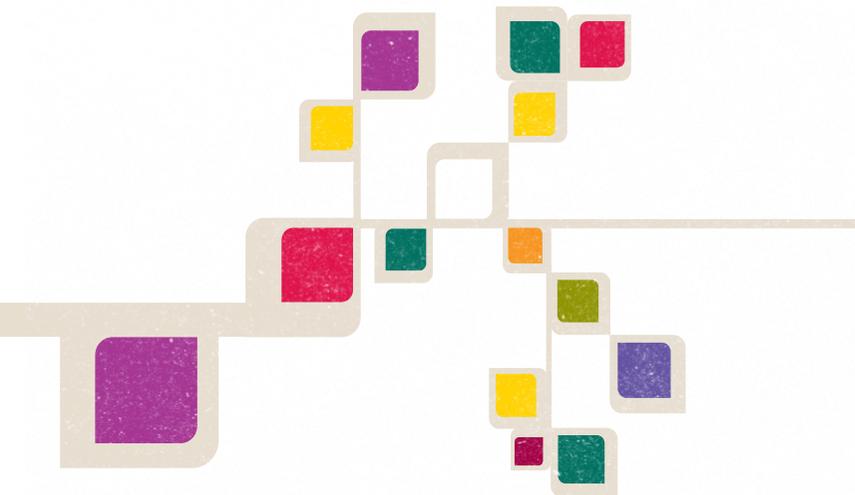
**E** [Richard.watkinson@uk.gt.com](mailto:Richard.watkinson@uk.gt.com)



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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# Introduction

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

Members of the Audit and Accounts 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 and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services (March 2016); <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; (April 2017) <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

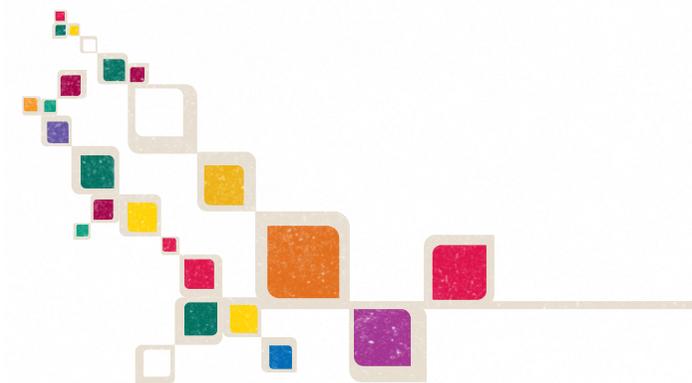
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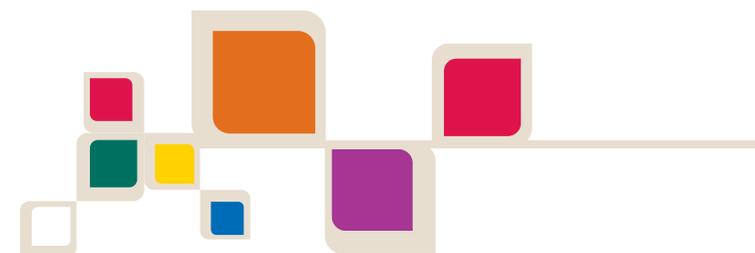
**Mark Heap**  
Engagement Lead  
T 0161 234 6375  
M 07880 456 204  
E [mark.r.heap@uk.gt.com](mailto:mark.r.heap@uk.gt.com)



**Simon Hardman**  
Engagement Manager  
T 0161 234 6379  
M 07880 456 202  
E [simon.hardman@uk.gt.com](mailto:simon.hardman@uk.gt.com)

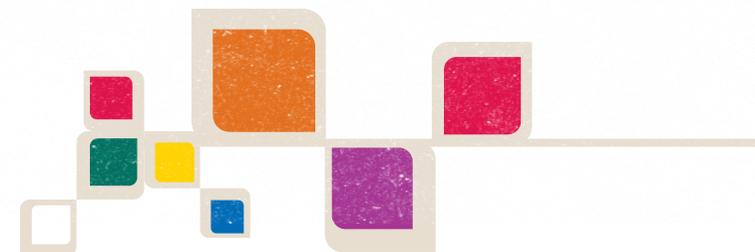


# Progress at June 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b> We issued our fee letter for the 2016/17 audit in April 2016.</p>	April 2016	Yes	At this meeting we have issued the fee letter for 2017/18, with no change to the fee proposed. This is reported to this meeting of the Governance Committee.
<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	Our Audit Plan for 2016/17 was presented to the Governance Committee meeting in April 2017.
<p><b>Interim accounts audit</b> Our interim fieldwork visit plan included:</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> <li>• Value for Money conclusion risk assessment.</li> </ul>	December 2016 to April 2017	Yes	An update on work completed was included in the accounts audit plan. There were no issues arising from our work that we need to bring to the attention of 'those charged with governance' (the Governance Committee).
<p><b>Final accounts audit</b> 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 consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</li> </ul>	June to July 2017	In progress	<p>We are planning to substantially complete our audit by 31<sup>st</sup> July as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>The draft accounts have yet to be received in full (ie including the narrative report and Annual Governance Statement). We began work on site in June 2017.</p> <p>The findings from our final accounts work will be reported to the Governance Committee on 13 September 2017.</p>

# Progress at June 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged to 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"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	January to July 2017	In progress	<p>We have set out the result of our risk assessment and the proposed focus of our work at pages 7 and 8.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements.</p>
<p><b>Annual Audit Letter</b></p> <p>Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2017.</p>	October 2017	Not yet started	We will issue an Annual Audit Letter to the Council in line with specified deadlines after the audit of the 2016/17 financial statements.

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2017/18 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out opposite:

## Risk assessment

We completed an initial risk assessment based on the NAO's guidance (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>• Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>• Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>• Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>• Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>• Working with third parties effectively to deliver strategic priorities</li> <li>• Commissioning services effectively to support the delivery of strategic priorities</li> <li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

*A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out in our plan in April 2017 the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

# Technical Matters





## Accounting and audit issues

### LAAP Bulletin 105: Closure of the 2016/17 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued LAAP Bulletin 105. The bulletin provides further guidance and clarification to complement CIPFA's 2016/17 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- Highways Network Asset
- update to the 2016/17 code
- Telling the Story
- accounting standards that have been issued but have not yet been adopted
- summary of other changes to the 2016/17 Code
- statutory guidance on the flexible use of capital receipts
- the Better Care Fund

The LAAP bulletin confirms that section P - Highways Network Asset of Module 4 no longer applies and any reference in the 2016/17 Code Guidance Notes to the Highways Network Asset does not apply. Therefore, highways authorities accounting policies for the infrastructure class of assets are unchanged from the approach adopted in previous years, i.e. the infrastructure class of assets will be defined as it was in the 2015/16 Code and be measured at depreciated historical cost.

Telling the Story – the 2016/17 Code changed segmental reporting arrangements for the Comprehensive Income and Expenditure Statement (CIES) and introduced the Expenditure and Funding Analysis (EFA). Both the CIES and EFA include a segmental analysis which requires local authorities to report on the basis of how they are structured.

#### Challenge question:

- Has your Finance team reviewed the guidance and taken into consideration any relevant aspects when preparing your 2016/17 financial statements?



## Accounting and audit issues

### 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) and 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.

#### Challenge questions:

- Is your Finance team aware of the changes to the 2017/18 Code and have they assessed the potential impact?

# Sector issues and developments



# National Audit Office

## NAO Publications

### Protecting information across government

“Protecting information while re-designing public services and introducing the technology necessary to support them is an increasingly complex challenge. To achieve this, the Cabinet Office, departments and the wider public sector need a new approach, in which the centre of government provides clear principles and guidance and departments increase their capacity to make informed decisions about the risks involved.”

Amyas Morse, head of the National Audit Office, 14 September 2016

<https://www.nao.org.uk/report/protecting-information-across-government/>

### Planning for 100% local retention of business rates

“The Department faces a significant challenge in implementing 100% local retention of business rates by 2019-20. It has benefited from the experience of delivering the 50% local retention scheme and is using this experience effectively. The key question is whether there is enough money in the system to let services be delivered on the right scale and for self-sufficiency to be seen to succeed.”

Amyas Morse, head of the National Audit Office, 29 March 2017

<https://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates/>

### Challenge question:

- Have you read the NAO reports?

### Health and social care integration

“Integrating the health and social care sectors is a significant challenge in normal times, let alone times when both sectors are under such severe pressure. So far, benefits have fallen far short of plans, despite much effort. It will be important to learn from the over-optimism of such plans when implementing the much larger NHS sustainability and transformation plans. The Departments do not yet have the evidence to show that they can deliver their commitment to integrated services by 2020, at the same time as meeting existing pressures on the health and social care systems.”

Amyas Morse, head of the National Audit Office, 8 February 2017

<https://www.nao.org.uk/report/health-and-social-care-integration>

Grant Thornton



# CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio-economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

# Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires. With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation.

Our new research on income generation which includes our CFO Insights too 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).

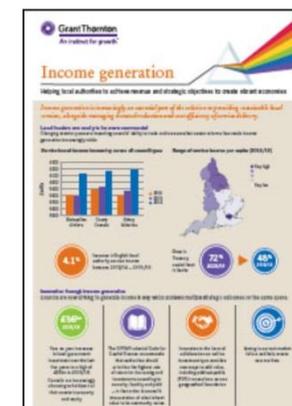
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

## Grant Thornton publications

### Challenge question:

- Have you read our income generation report?
- Is your council actively exploring options to generate income?



Our Income generation report was published on Thursday 2 March, hard copies are available from your team and via link:

<http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>

# A Manifesto for a Vibrant Economy

Grant Thornton publications

## 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 breath, 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.

## Challenge 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>

Guy Clifton – Head of Local Government Advisory

# Publications

Providing key insight and examples of best practice to local government, police, fire and rescue services



## Innovation in public financial management

Our research on international public financial management shows it is evolving, from having a narrow focus on budgeting, towards a wider mandate as a key driver of policy and strategy across all levels of government, public services, state enterprises and public-private partnerships.



## Turning up the volume

Our Business Location Index identifies the most desirable and affordable areas for investment in England, by looking at a combination of economic performance, people & skills, environment & infrastructure and cost.

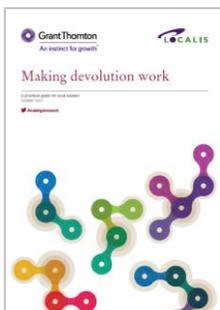
Our aim is to give local authorities and LEPs the tool to better understand and market their strength and assets to increase inward investment and inform their devolution discussions.



## Reforging local government

The autumn statement identified how councils will need better financial management and further efficiency to achieve the projected 29% savings. This presents a serious challenge to manage councils that have already become lean.

Our report looks at the financial challenge facing councils, the new governance agenda that will challenge traditional arrangements and expectations, and the way forward for the public sector through devolution, innovation, collaboration and cultural change.



## Making devolution work

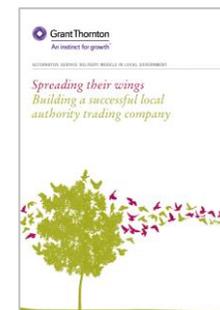
This report gets under the bonnet of the devolutionary conversations taking place between Whitehall and local government across England. It offers a practical guide to local leaders by outlining the benefits of devolution, the areas of priority to central government and the key questions that must be addressed in order to produce a successful devolution bid.



## Growing healthy communities

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live.

Our health and wellbeing index looks at the health determinants and outcomes of an area, highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes. It also identifies the wider economic determinants on an area's circumstances, emphasising the need for local collaboration between public sector bodies.



## Spreading their wings

Our first report in a series looking at alternative delivery models in local government looks at local authority trading companies (LATCs).

The need to improve performance against the continuing financial pressure in the public sector has led to an increase in innovative solutions to the challenges, such as alternative delivery models.

Our report provides a guide on building a successful LATC, identifying the areas that must be considered at each stage of the process, as well as offering a number of examples of best practice.



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