

Shepway District Council Audit and Governance Committee Progress Report and Update Year ended 31 March 2018

September 2017

Elizabeth Jackson

Engagement Lead

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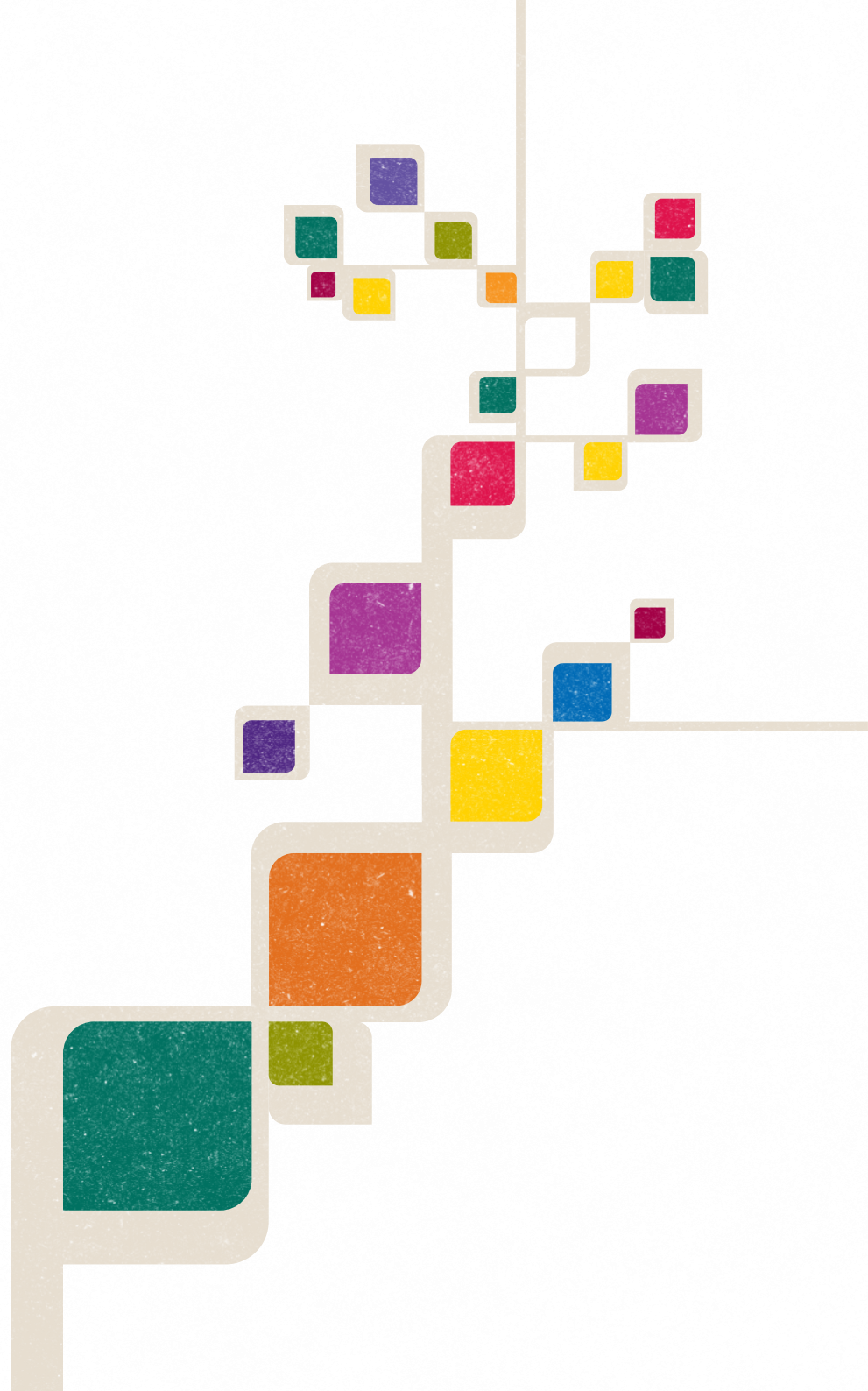
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Andy Conlan

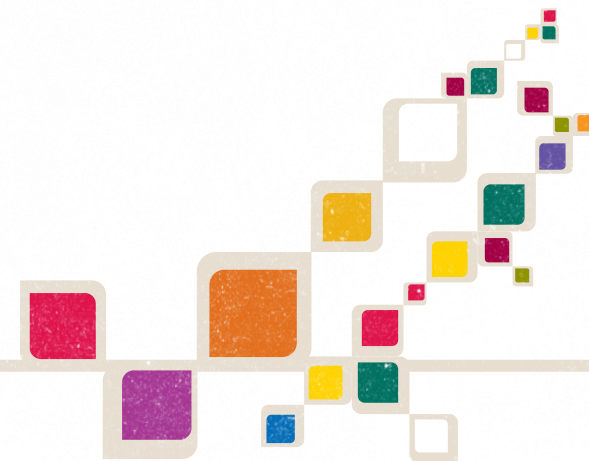
Manager

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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.



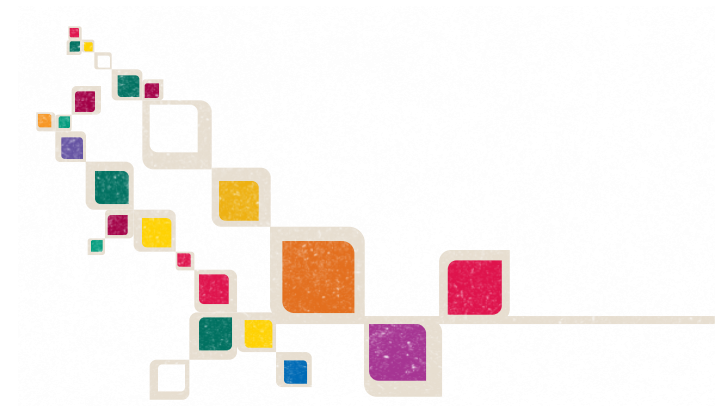
Introduction

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

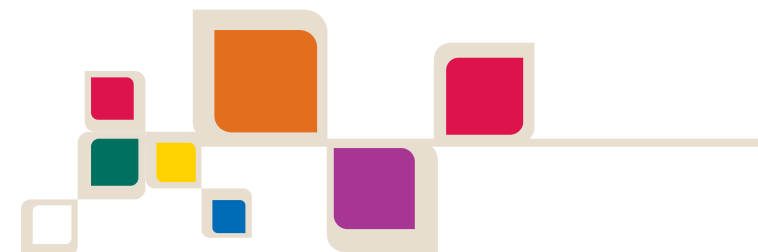
Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services (March 2017 and April 2017); <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
<http://www.grantthornton.co.uk/en/insights/becoming-a-strong-commercial-council/>
- CFO Insights – reviewing council's spending (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Shaping a vibrant economy - A blueprint for the UK
<http://www.grantthornton.co.uk/en/insights/shaping-a-vibrant-economy-a-blueprint-for-the-uk/>

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

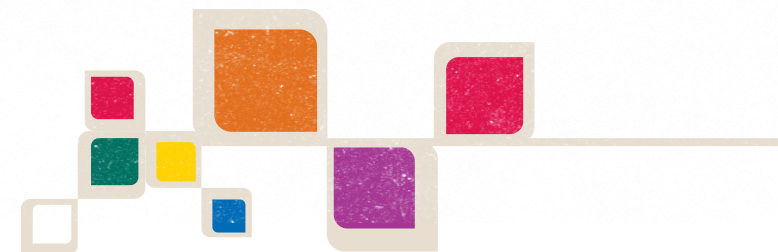


Progress at September 2017



2017/18 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2017/18'	April 2017	Yes	The fee letter was sent to management in April 2017. A copy is included as an appendix to this report.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	April 2018	Not yet due	
Interim accounts audit Our interim fieldwork visit plan included: <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	This work is planned to be completed during 2 fieldwork visits each of approximately a week to take place between November 2017 and February 2018	Not yet due	The fieldwork dates for our risk assessment and early testing visit will be agreed to fit around your officers' workloads. We are holding a workshop with the finance team in October 2017 to debrief the 2016/17 accounts audit and we will agree the approach for 2017/18 audit with officers after this.

Progress at September 2017



2017/18 work	Planned Date	Complete?	Comments
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 			
	June/July 2018	Not yet due	The early close deadline of 31 July comes into force in the 2017/18 financial year
Value for Money (VfM) conclusion 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". 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: <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 			
	July 2018	Not yet due	Risk assessment for our VfM conclusion work will take place simultaneously with the accounts audit risk assessment and we will notify the committee of the identified VfM risks with the 2017/18 audit plan in April 2017.

Technical Matters





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), 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:

- Are your finance team aware of the changes to the 2017/18 Code and assessed the potential impact?

Sector issues and developments



National Audit Office

Progress in setting up combined authorities

For combined authorities to deliver real progress and not just be another ‘curiosity of history’ like other regional structures before them, they will need to demonstrate that they can both drive economic growth and also contribute to public sector reform.

Amyas Morse, head of the National Audit Office, 6 July 2017

<https://www.nao.org.uk/report/progress-in-setting-up-combined-authorities/>

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/>

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>

NAO Publications

Challenge question:

- Have you read the NAO reports?

Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. These are available on the website:

<http://www.local.gov.uk/publications>

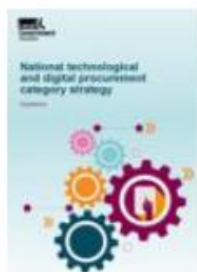


Partnership approaches to improving health outcomes for young people

14 August 2017

The case studies in this report showcase different approaches to supporting the health of young people. Whilst the approach and focus of the work in local areas varies, each case study provides an opportunity to reflect on what made the initiative a success and how to use this learning in other areas.

<https://www.local.gov.uk/partnership-approaches-improving-health-outcomes-young-people>



National technological and digital procurement category strategy

1 July 2017

As local government moves wholesale towards digital operating models, it is essential that IT itself is not a barrier to business change, service transformation or to shared service initiatives.



The LGA's productivity offer - Helping councils to save money and generate income

29 June 2017

The LGA offers support to help your council become more efficient, save money and generate income

Grant Thornton



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 tool suggests that:

- ❖ councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- ❖ the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.

- ❖ stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

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

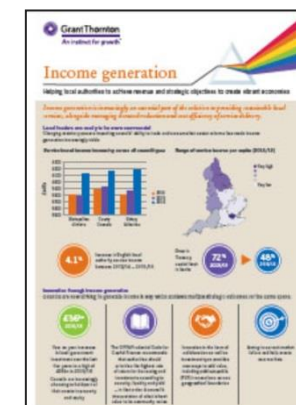
Our Income generation report was published on Thursday 2 March, and a further update report entitled “Becoming a strong commercial council” was published on 5 April, hard copies are available from your team and via link:

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

Grant Thornton publications

Challenge question:

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



Shaping a vibrant economy - A blueprint for the UK

The UK is at a pivotal point in its history.

The election shows the need for government and politicians, nationally and locally, to work together to reshape our economy. Government cannot, and should not, do that alone. We all have a big role to play and have a desire and ability to make a difference.

Over the past 18 months, we have brought together more than 1000 community and business leaders up and down the UK to discuss what matters to them and how they can work together to bring this to life.

We collated these ideas and added feedback from our clients and contacts to create Shaping a vibrant economy - A blueprint for the UK, a set of policy recommendations that we will share with government.

We want the government to use this opportunity to unlock and accelerate our country's potential across three key areas.

Trust - helping to restore purpose to financial markets, championing impact investing.

Growth - putting collaboration at the heart of the UK's industrial strategy to boost exports, develop skills and unlock innovation.

Place - devolving powers from Westminster and Brussels to foster vibrant local economies.

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

Challenge question:

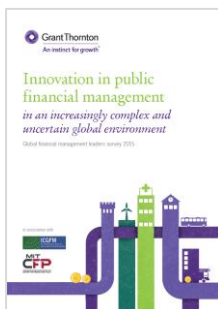
- Have you read our manifesto?

<http://www.grantthornton.co.uk/en/insights/shaping-a-vibrant-economy-a-blueprint-for-the-uk/>



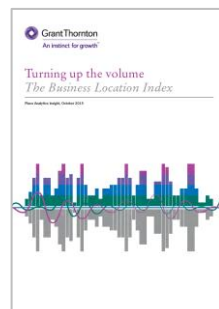
Publications

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.

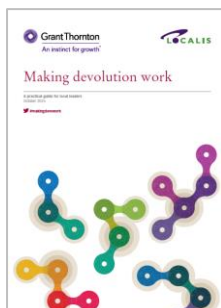
Our aim is to give local authorities and LEPs the tool to better understand and market their strength and assets to increase inward investment and inform their devolution discussions.



Reforging local government

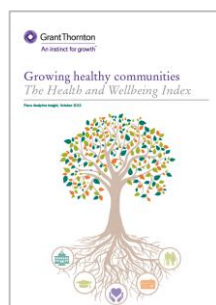
The autumn statement identified how councils will need better financial management and further efficiency to achieve the projected 29% savings. This presents a serious challenge to manage councils that have already become lean.

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.

Hardcopies of these reports are available from your audit team

Appendix



2017/18 Audit Fee Letter

Alistair Stewart
Chief Executive
Shepway District Council
Castle Hill Avenue
Folkestone
Kent
CT20 2QY

25 April 2017

Dear Sirs

Planned audit fee for 2017/18

The Local Audit and Accountability Act 2014 provides the framework for local public audit. Under these provisions the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Audit Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no changes to the overall work programme for local government audited bodies for 2017/18, following the recent CIPFA/LASAAC announcement that their planned introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities in 2017/18 will no longer proceed. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £60,458.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the [2017/18 work-programme and scales of fees](#) set out on the PSAA website. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

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 NAO issued its guidance for auditors on value for money work in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

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.

Certification of grant claims and returns

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2017	15,114.50
December 2017	15,114.50
March 2018	15,114.50
June 2018	15,114.50
Total	60,458
Housing Benefit Certification	
March 2018	TBC

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2017 to March 2018. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June to July 2018 and work on the whole of government accounts return in July 2018.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2017 to March 2018	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2018	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	July 2018	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2018	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	August 2018	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	August to November 2018	Grant certification report	A report summarising the findings of our housing benefit certification work

Our team

The key members of the audit team for 2017/18 are:

Role	Name	Phone number	Email
Engagement Lead	Elizabeth Jackson	07880 456 191	Elizabeth.L.Jackson@uk.gt.com
Engagement Manager	Andy Conlan	07393 762 443	Andy.N.Conlan@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner, via Paul.Dossett@uk.gt.com.

Yours sincerely

Elizabeth Jackson
Engagement Lead

cc. Tim Madden



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