

Audit Committee  
Swale Borough Council  
Progress Report and Update  
Year ended 31 March 2017

June 2017

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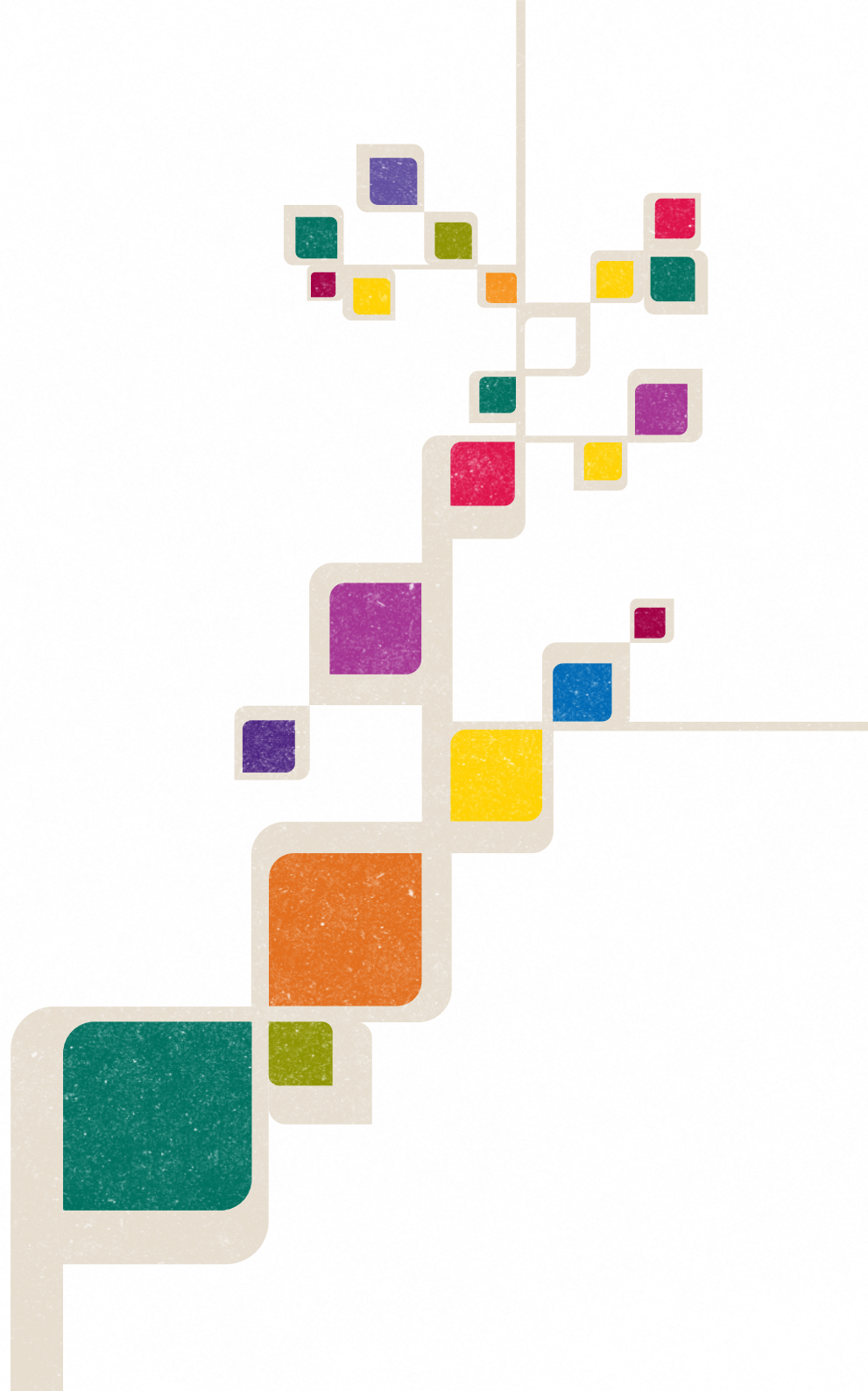
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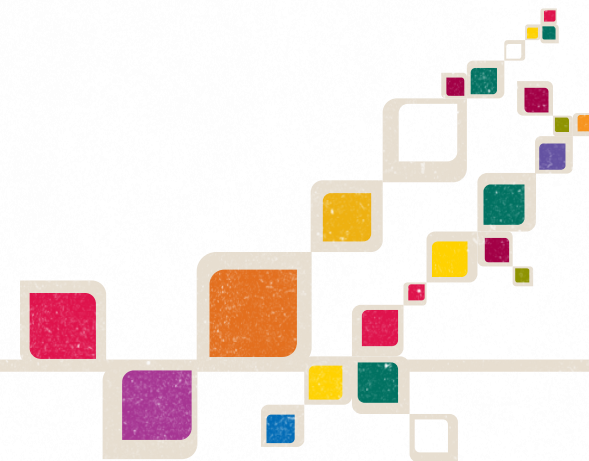
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



# Introduction

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

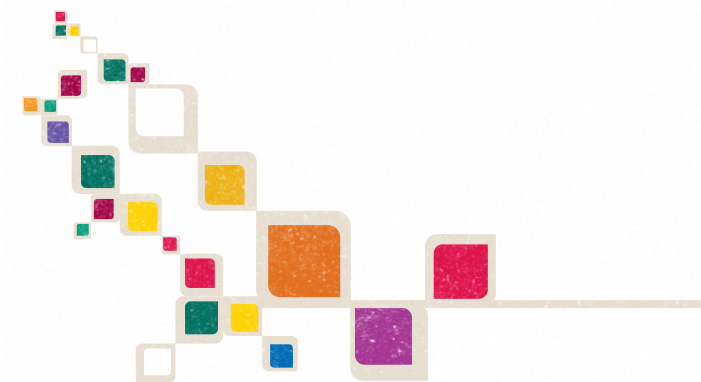
The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

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 at [www.grant-thornton.co.uk/en/Services/Public-Sector/](http://www.grant-thornton.co.uk/en/Services/Public-Sector/) and where you can also download copies of our publications.

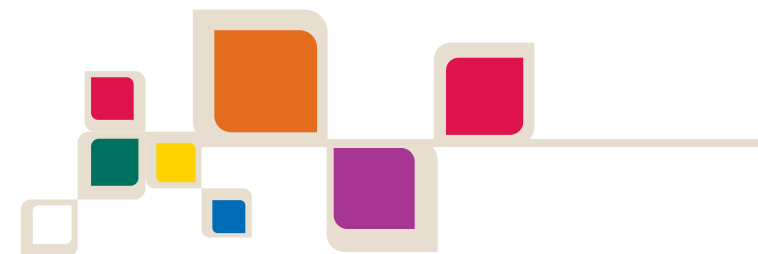
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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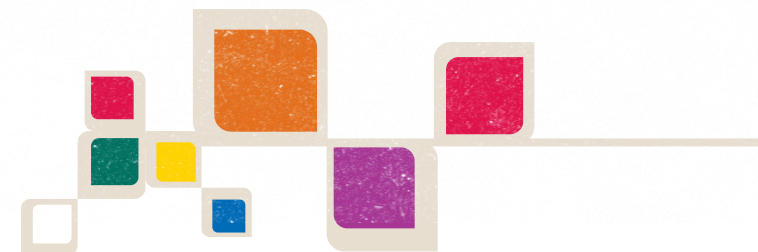


# Planned work



2016/17 work	Planned Date	Comments
<p><b>Interim accounts audit</b> Our interim audit work will include:</p> <ul style="list-style-type: none"> <li>• work to understand the control environment and the framework of controls for financial systems</li> <li>• walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement</li> <li>• early substantive testing in areas such as payroll and payments.</li> </ul>	<p>December 2016 – April 2017</p>	<p>We have completed our walkthrough tests of the Council's financial system controls in areas where we consider that there is a risk of material misstatement. Our work has not identified any issues which we wish to bring to your attention.</p>
<p><b>Accounts Audit Plan</b> Under auditing standards we issue a detailed accounts audit plan setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	<p>June 2017</p>	<p>Our Audit Plan is included as a separate item on today's agenda.</p>
<p><b>Final accounts audit</b> Work to complete our audit of the 2016-17 financial statements.</p> <p>We will also continue to liaise regularly with the finance team throughout the year, including on emerging accounting and auditing issues.</p>	<p>July 2017</p>	<p>This year Grant Thornton has again run local workshops for preparers of local government accounts, covering current issues and changes to the Code of Practice on Local Authority Accounting. Local workshops were attended by members of the Council's finance team.</p> <p>In March 2017 the finance team produced an early draft set of template accounts incorporating changes in the CIPFA Accounting Code for 2016/17. This was good practice and allowed audit input at an early stage before the draft accounts were finalised.</p> <p>Our Audit Findings Report including our proposed opinion and value for money conclusion will be presented to the September Audit Committee.</p>

# Planned work



2016/17 work	Planned Date	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>We are required by section 21 of the Local Audit and Accountability Act 2014 and the NAO Code of Audit Practice to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VfM) conclusion.</p> <p>In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. Under AGN03 auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: <i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"</i>.</p> <p>AGN03 provides examples of proper arrangements using three sub-criteria;</p> <ul style="list-style-type: none"> <li>• informed decision making</li> <li>• sustainable resource deployment</li> <li>• working with partners and other third parties.</li> </ul> <p>These sub-criteria are intended to guide auditors in reaching their overall conclusion, but they not separate criteria for assessment purposes and auditors are not required to reach judgements on each of them.</p>	<p>March - July</p>	<p>Our initial risk assessment is reported in our Audit Plan. We will report the outcomes from our Value for Money conclusion work in our Audit Findings Report.</p>

Grant Thornton



## The Income Spectrum (March 2017)

Helping local authorities to achieve revenue and strategic objectives to create vibrant economies

### Grant Thornton market insight

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our new report “The Income Spectrum” gives local authorities the tools needed to maximise their ability to do so.

Our 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 a 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).

To support local authorities as they develop income generation strategies, the report provides;

- case study examples
- local authority spend analysis
- examples of innovative financial mechanisms
- critical success factors to consider.



## The Board: creating and protecting value (April 2017)

### Our new cross sector Board Effectiveness Report

In all sectors boards are increasingly coming under pressure from both the market and regulators in terms of effectiveness and accountability. Building on the success of our cross sector audit committee effectiveness survey “Knowing The Ropes” the Grant Thornton Governance Institute extended its research to look at the effectiveness of boards across the corporate, public and not for profit sectors.

This report raise key questions that all boards should ask themselves to challenge their effectiveness. Their organisations may operate in different sectors and be subject to a variety of statutory and governance requirements, but they all share a common overriding principle: the governing body is a collective charged with developing the organisation’s purpose.

#### Key messages:

- There is a strong future focus on boards
- Executive behaviours tend to dominate - not the best scenario for good governance or an organisation’s future focus
- There are strongly held opinions about the relationship between the board and the executive which will impact on efficiency
- More than 88% of respondents see their executives as being strong leaders of the organisation
- There is a clear focus on organisational culture and values across all sectors – 93% see the executive board members modelling the values of the organisation
- Non-executives also need to live and breathe those values – only 82% of respondents agreed that the non-executives inspire and guide the executive to realise the organisation’s purpose
- Only 75% of respondents feel that the recruitment process of non-executives is rigorous, well-documented or transparent
- Over 60% of board members believe that are adequate processes in place to evaluate performance

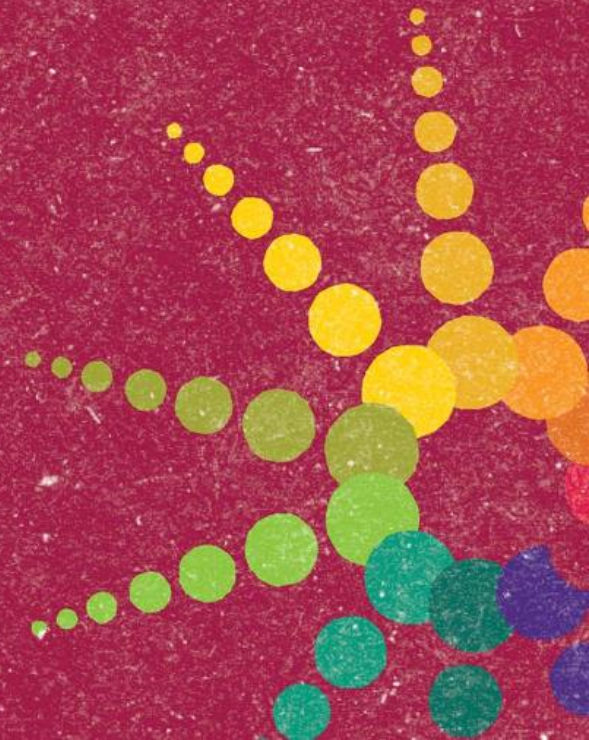
This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This framework allows organisations to have a better understanding about where they are focusing their energies.

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





# Local Government Accounting and other issues



# Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

## 100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published. [http://downloads2.dodsmonitoring.com/downloads/Misc\\_Files/LocalGovFinance.pdf](http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf)

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

## Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

**Paul Dossett Head of Local Government in Grant Thornton LLP** has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

## National developments

*"Social care precept changes will not help those living in more deprived areas"*

*"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"*

not tackle the crisis of social care in our most disadvantaged communities and arguably make only a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

# Pooling of LGPS

## National developments

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

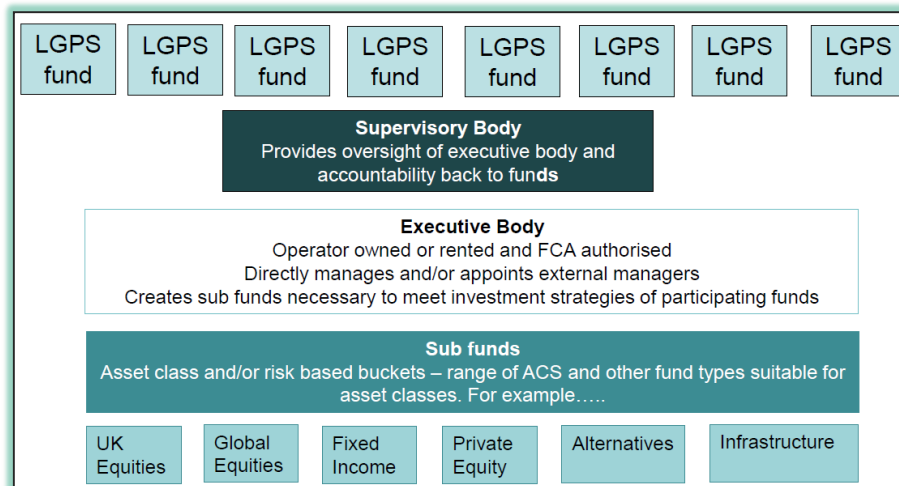
- having a responsible investment strategy
- reporting to employers and members

### Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds.

Link:  
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps/>



typical structure of LGPS Pool



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