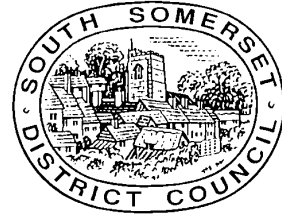


South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 26th April 2018

10.00 am

**Main Committee Room, Council Offices,
Brympton Way, Yeovil BA20 2HT**

(disabled access and a hearing loop are available at this meeting venue)



The following members are requested to attend the meeting:

Chairman: Derek Yeomans

Vice-chairman: Tony Lock

Jason Baker
Mike Best
Carol Goodall

Anna Groskop
Val Keitch
Graham Middleton

David Norris
Colin Winder

If you would like any further information on the items to be discussed, please contact the Case Services Officer (Support Services) on 01935 462596 or democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 18 April 2018.

Alex Parmley, *Chief Executive Officer*

This information is also available on our website
www.southsomerset.gov.uk and via the mod.gov app



INVESTORS IN PEOPLE

Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are usually held monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

Audit Committee

Thursday 26 April 2018

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on Thursday 22nd March 2018.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 24th May 2018 in the Main Committee Room, Brympton Way, Yeovil.

Items for Discussion

6. External Audit Progress Report (Pages 5 - 23)

7. Audit Committee Meetings Calendar (Pages 24 - 28)

8. Audit Committee Forward Plan (Pages 29 - 30)

Agenda Item 6

External Audit Progress Report

<i>Director</i>	<i>Netta Meadows, Strategy and Commissioning</i>
<i>S151 Officer</i>	<i>Paul Fitzgerald, S151 Officer</i>
<i>Lead Officer:</i>	<i>Catherine Hood</i>
<i>Contact Details:</i>	<i>Catherine.Hood@southsomerset.gov.uk or 01935 462157</i>

Purpose of the Report

1. This report introduces Grant Thornton's Audit Progress and Sector Update Report for the year ending March 2018.

Recommendations

2. That the Audit Committee notes the report.

Background

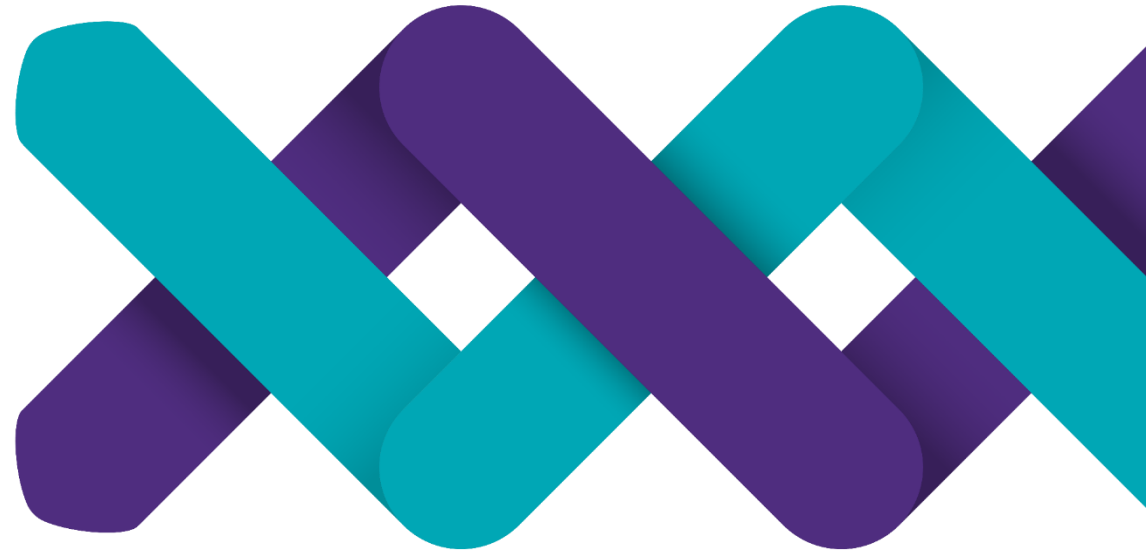
3. The report from Grant Thornton, the Council's external auditor, provides the Audit Committee with an update on progress in delivering their responsibilities to the council and its stakeholders.
4. The report also provides a summary of emerging national issues and developments, and includes a number of challenge questions the committee may wish to consider regarding these.
5. It is pleasing to note that the delivery of responsibilities remains on track, and that at this stage no material weaknesses or issues are identified following the testing completed to date. In addition, Grant Thornton has indicated based on interim findings and conclusion that they expect to be in a position to issue an unqualified Value For Money opinion. This provides positive assurance regarding the financial arrangements of the Council.

Financial Implications

6. None for the purposes of this report.

Audit Progress Report and Sector Update

South Somerset District Council
Year ending 31 March 2018
Page 6
10 April 2018



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.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 10 April 2018

Financial Statements Audit

We have completed planning for the 2017/18 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in February 2018. Our interim fieldwork visit included an:

- 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

The findings from our interim audit are summarised at page 6 to 8.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 11 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

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

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

We made our initial risk assessment to determine our approach in December 2017 and reported this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March to discuss the Council's strategic priorities and plans.

Technical Issues

Following the purchase of land and property for investment purposes at Marlborough we have met with the finance team to discuss the appropriate accounting treatment of the asset. This has included referral to the Grant Thornton national technical team to provide expert advice. We continue to discuss the issue with the finance team and will review the treatment as part of the accounts audit.

Audit Deliverables

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

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below :

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

	Work performed	Conclusions and recommendations
Review of information technology (IT) controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	Our work has not identified any weaknesses which impact on our audit approach.

	Work performed	Conclusions and recommendations
Early substantive testing	<p>We have undertaken early testing on transactions in relation to the following areas of the financial statements:</p> <ul style="list-style-type: none"> • Operating Expenditure • Other Revenues • Employee Remuneration 	<p>Our early testing of transactions has not identified any issues that require reporting to those charged with governance. We will undertake transaction testing on the residual balances as part of our accounts visit and include any issues within the Audit Findings Report.</p>

Value for Money Interim Conclusion

Page 14

Risk Identified	Work to Address	Interim findings and Conclusion
<p>Transformation Programme</p> <p>The Council is in the process of implementing an ambitious programme to redesign the organisation and methods of service delivery to deliver more customer focussed, lean, efficient services and release recurrent significant savings in future years.</p> <p>In order to deliver this transformation the Council will need to make an upfront investment of some £7.5m to cover the cost of restructuring, including an estimate of up to £4.5m of redundancy costs, as well as the cost of new IT infrastructures.</p> <p>The successful delivery of this programme represents a significant risk to the Council.</p>	<p>We will review the project management arrangements in place at the Council to assess how it is addressing the risk and any mitigating actions it may need to take to deliver the planned outcomes.</p>	<p>To inform our work we have reviewed key documentation and performance and have held meetings with senior management in order to reach our opinion. The findings reported below are those as at April 2018 are subject to review and possible amendment.</p> <p>2017-18 is the first year of implementation for the transformation project which is seen as one the key mechanisms, alongside commercialisation, by which the Council will deliver its savings requirements by 2020-21 in the face of ever reducing funding from Central Government.</p> <p>The key achievements and milestones in 2017-18 are:</p> <ul style="list-style-type: none"> • Review and implementation of Leadership and Management and Support Staff as part of phase 1 of the project • Commencement of phases 2 and 3 with an implementation date of January 2019 • Realised savings of £185,630 from phase 1 which is £60,800 above forecast <p>Savings, as a result of the transformation programme, have been appropriately considered as part of the 2018-19 budget setting process and are fully costed within the Medium Term Financial Plan.</p> <p>A review of financial service redesign by internal audit has not identified any issues and concluded that the steps taken to redesign financial services appear reasonable.</p> <p>There is regular reporting of progress and issues to District Executive and an annual report to Full Council which gives members a chance to scrutinise and challenge the programme and gain assurance over any issues raised.</p> <p>As a result of the work done at the interim stage we consider that the Transformation Programme is on course to deliver the forecast savings and that the governance structures in place continue to operate effectively. On this basis we are expecting to conclude that we will issue an unqualified VfM opinion.</p> <p>This is subject to review and amendment and we continue to monitor progress and discuss issues with management as part of our ongoing review. Any changes to the proposed opinion, or further issues, will be reported as part of the Audit Findings Report in July</p>

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

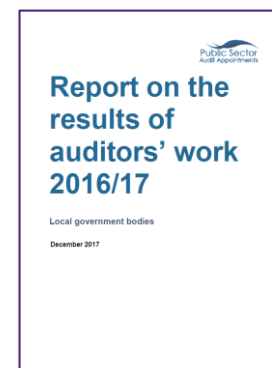
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Financial sustainability of local authorities 2018

This National Audit Office report reviews financial sustainability across Local Government and examines whether the MHCLG, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

The report concludes that current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014, when the NAO first looked at financial sustainability. It also notes that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The NAO's view is that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the 2014 review..

Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.

Key findings include:

Financial resilience varies between authorities, with some having substantially lower reserves levels than others. Levels of total reserves in social care authorities as a whole are higher now than in 2010-11. However, there is variation in individual authorities' ability to build up their reserves and differences in the rate at which they have begun to draw them down. Some 10.6% of single-tier and county councils would have the equivalent of less than three years' worth of total reserves (earmarked and unallocated combined) left if they continued to use their reserves at the rate they did in 2016-17.

A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year. In February 2018, the statutory financial officer for Northamptonshire County Council issued a section 114 notice, indicating that it was at risk of spending more in the financial year than the resources it has available, which would be unlawful.

MHCLG's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review. The Department's advice to ministers in 2015 drew on a more comprehensive evidence base, including data returns from 12 departments.

The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities. In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. However, there have been many changes to funding streams outside this core offer. The funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding initiatives.

There is also uncertainty over the long-term financial plan for the sector. The absolute scale of future funding is unknown until the completion of the next Spending Review. The government has confirmed its intention to implement the results of the Fair Funding Review in 2020-21 and to allow local authorities to retain 75% of business rates. However, the implications of these changes are not yet clear.

There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.

49.1%

real-terms reduction in government funding for local authorities, 2010-11 to 2017-18

28.6%

real-terms reduction in local authorities' spending power (government funding plus council tax), 2010-11 to 2017-18

1

number of authorities since 2010-11 where a section 114 notice has been issued that indicates they are at risk of spending more than the resources they have available



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
 - amended proposals relating to useful economic lives of assets
 - implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

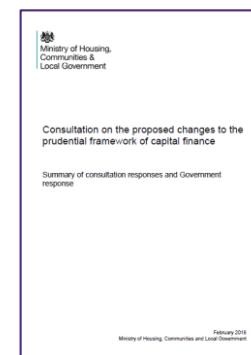
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Have members considered the impact of the changes to the prudential framework of capital finance?

CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn.

The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Have members considered the impact of the changes to the prudential code?

Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>
<http://www.grantthornton.co.uk/industries/publicsector>
<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>
<http://www.cfoinsights.co.uk/>
<http://supplychaininsights.grantthornton.co.uk/>

PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

HMCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>
<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>
<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

National Audit Office link

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>
<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>



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Agenda Item 7

Audit Committee Meetings Calendar

Executive Portfolio Holder: Councillor Peter Seib
Service Manager Paul Fitzgerald, S151 Officer
Lead Officer: Paul Fitzgerald, S151 Officer
Contact Details: Paul.Fitzgerald@southsomerset.gov.uk or (01935) 462226

Purpose of the report

1. This report requests the Members of Audit Committee consider a change to the frequency of Audit Committee Meetings within the Meetings Calendar for 2018/19.

Recommendations

2. Members agree a recommendation to Annual Council to reduce the frequency of Audit Committee meetings in the interests of efficiency, without detriment to fulfilling its responsibilities, of either:

Option A: Six meetings per year, scheduled to be held in June, July, October, November, January, and March

Or

Option B: Quarterly meetings, scheduled to be held in July, October, January, and April

Introduction

3. Currently the Audit Committee meets on a monthly basis, and therefore up to twelve meetings per year.
4. The advantages of this approach include that Members meet frequently to consider audit and governance matters, and the direction of meetings can be managed comfortably to cover the business on the agendas.
5. However, the disadvantages include that this requires significant time and cost for attendance of both officers and members, and meetings quite often only have 1-2 items on the agenda, leading to inefficiency.
6. Whilst dates are held in the calendar there have also been a number of meetings cancellations: 2017 = 2, 2016 = 4, 2015 = 3.

Comparison with other Councils

7. To assist Audit Committee with considering this request, the frequency of meetings in our neighbouring districts in Somerset has been researched. By way of comparison, those authorities' audit/governance meetings take place either four or five times per year:

Mendip – four per year: January, April, July, October

Sedgemoor – four per year: July, October, February, April

Taunton Deane – five per year: March, June, July, September, December

West Somerset – five per year: March, June, July, September, December

8. Whilst it is acknowledged that the scope of responsibilities of the respective audit/governance committees between SSDC and the other districts are not necessarily identical they are very similar, and it provides confidence for SSDC's Audit Committee to consider meeting less often

without having a detrimental impact in fulfilling its responsibilities in line with the Council's Constitution.

Proposals for 2018/19

9. The Committee is requested to consider two options for the Meetings Calendar for 2018/19. These are either:

Option A: Meeting six times per year, with meetings scheduled to be held in June, July, October, November, January, and March;

Or

Option B: Meeting four times per year, every three months, with meetings scheduled to be held in July, October, January, and April

10. An example of a Forward Plan for both options is included at the end of this report. These demonstrate that there will be several items on the agenda, and in many cases with individual officers attending to present more than one report in a meeting – so making attendance more efficient for officers and colleagues from partners such as internal and external audit. A small number of review and reporting requirements have also been reviewed and streamlined or removed from the Forward Plan in the interests of efficiency and avoiding unnecessary reporting for delegated matters.
11. The S151 Officer is confident that the Audit Committee can continue to provide effective audit and governance with a reduced frequency of meetings. It is evident from the draft forward plan examples that in holding six meetings per year it is likely to be easier to add in additional items without significantly extending the duration of individual committee meetings.
12. There is also a potential opportunity to challenge a small number of items that are included on agendas as 'good practice' but are not essential for the Council achieving good governance. An example is accounting policies, which are approved by the S151 Officer in line with delegated responsibility but presented to Audit Committee in advance of the final accounts. Such items can be considered further in agreeing Forward Plans with the Chair for presentation to the Audit Committee during the year.

Financial Implications

13. Whilst no formal costing exercise has been undertaken, reducing the number of meetings will improve efficiency in areas such as committee support (producing agendas, minutes, etc), time spent by officers and members in meetings, travel expenses, etc.

Background Papers

None

Audit Committee – Example Draft Forward Plan 2018/19 – Six Meetings

Committee Date	Item	Responsible
28 Jun 18	Review of Internal Audit 2017/18 Internal Audit Plan Progress Q4 Internal Audit Annual Opinion 2017/18 Health, Safety and Welfare (Annual Report) Register of staff interests – annual review Annual Treasury Management Activity Report 2017/18 – Needs to go on to Full Council	S151 Officer Laura Wicks (SWAP) Laura Wicks (SWAP) Pam Harvey Monitoring Officer Finance Specialist
19 Jul 18	Annual Governance Statement External Audit – Audit Findings Report Approve Annual Statement of Accounts Approve Summary of Accounts	S151 Officer S151 Officer (GT) Finance Specialist Finance Specialist
25 Oct 18	Internal Audit Plan Progress Q2 Treasury Management Practices Treasury Management Mid-Year Performance and Strategy Update – Needs to go on to Full Council	Laura Wicks (SWAP) Finance Specialist Finance Specialist
22 Nov 18	External Audit – Certification of Housing benefit Subsidy Claim External Audit – Annual Audit Letter Annual Fraud Programme Update	Finance Specialist (GT) Finance Specialist (GT) Legal Specialist
24 Jan 19	Internal Audit Plan Progress Q3 Treasury Management Strategy Statement 19/20 – Needs to go on to Full Council	Laura Wicks (SWAP) Finance Specialist
28 Mar 19	Internal Audit Plan 2019/20 - approve 2019/20 plan Internal Audit – Charter External Audit Plan for 2017/18 Accounts External Audit Progress Report 2017/18 Accounts	Laura Wicks (SWAP) Laura Wicks (SWAP) Finance Specialist (GT) Finance Specialist (GT)

- **Financial Statements Training** – it is proposed to schedule informal financial statements training late June / early July, separate to any formal committee agenda.
- **Internal Audit Updates** – it is proposed to provide two progress updates during the year in October and January with end of year performance and opinion reports in June
- **Going Concern Assessment** – S151 Officer advice is that, unless any significant issues, this will not need to be reported to Audit Committee. There is not statutory or constitutional requirement to do so. It is a management assessment that is the responsibility of the S151 Officer, and will be part of the audit working papers reviewed by the external auditor in forming their audit findings and conclusions.
- **Accounting Policies** – S151 Officer advice is that Accounting Policies are technical bases for preparing the accounts and for operational purposes are approved by the S151 Officer as qualified professional and responsible officer for the authority. Audit Committee approves the Statement of Accounts in July each year, and this includes the Accounting Policies as ‘Note 1’ hence at this stage are approved by the committee.
- **Risk Management** – Arrangements for management and reporting of risk management currently under review. To be added to the Plan.

Audit Committee – Example Draft Forward Plan 2018/19 – Quarterly Meetings

Committee Date	Item	Responsible
24 May 18*	Health, Safety and Welfare (Annual Report) Register of Staff Interests Annual Review	Pam Harvey Monitoring Officer
19 Jul 18	Review of Internal Audit 2017/18 Internal Audit Plan Progress Q4 Internal Audit Annual Opinion 2017/18 Annual Governance Statement External Audit – Audit Findings Report Approve Annual Statement of Accounts Approve Summary of Accounts Annual Treasury Management Activity Report – Needs to go on to Full Council	S151 Officer Laura Wicks (SWAP) Laura Wicks (SWAP) S151 Officer S151 Officer (GT) Finance Specialist Finance Specialist Finance Specialist
25 Oct 18	Internal Audit Plan Progress Q2 Treasury Management Practices Treasury Management Mid-Year Performance and Strategy Update – Needs to go on to Full Council Annual Fraud Programme Update	Laura Wicks (SWAP) Finance Specialist Finance Specialist Legal Specialist
24 Jan 19	Internal Audit Plan Progress Q3 Treasury Management Strategy Statement 19/20 – Needs to go on to Full Council External Audit – Certification of Housing benefit Subsidy Claim External Audit - Annual Audit Letter	Laura Wicks (SWAP) Finance Specialist Finance Specialist (GT) Finance Specialist (GT)
25 Apr 19	Internal Audit Plan 2019/20 – approval Internal Audit – Charter External Audit Plan for 2018/19 Accounts External Audit Progress Report 2018/19 Accounts Annual Treasury Management Activity Report – Needs to go on to Full Council Health, Safety and Welfare (Annual Report) Register of Staff Interests Annual Review	Laura Wicks (SWAP) Laura Wicks (SWAP) Finance Specialist (GT) Finance Specialist (GT) Finance Specialist Pam Harvey Monitoring Officer

*Last meeting of current meetings schedule

- **Financial Statements Training** – it is proposed to schedule informal financial statements training late June / early July, separate to any formal committee agenda.
- **Internal Audit Updates** – it is proposed to provide two progress updates during the year in October and January with end of year performance and opinion reports in July
- **Going Concern Assessment** – S151 Officer advice is that, unless any significant issues, this will not need to be reported to Audit Committee. There is not statutory or constitutional requirement to do so. It is a management assessment that is the responsibility of the S151 Officer, and will be part of the audit working papers reviewed by the external auditor in forming their audit findings and conclusions.
- **Accounting Policies** – S151 Officer advice is that Accounting Policies are technical bases for preparing the accounts and for operational purposes are approved by the S151 Officer as qualified professional and responsible officer for the authority. Audit Committee approves the Statement of Accounts in July each year, and this includes the Accounting Policies as ‘Note 1’ hence at this stage are approved by the committee.

- **Risk Management** – Arrangements for management and reporting of risk management currently under review. To be added to the Plan.
-

Agenda Item 8

Audit Committee Forward Plan

Lead Officer: Kelly Wheeler, Case Services Officer
Contact Details: Kely.wheeler@southsomerset.gov.uk or 01935 462038

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

Background Papers: None

Audit Committee – Forward Plan

Committee Date	Item	Responsible Officer
24 May 18	<ul style="list-style-type: none"> 2017/18 Annual Governance Statement Review of Internal Audit 	Paul Fitzgerald Paul Fitzgerald
28 Jun 18	<ul style="list-style-type: none"> Register of staff interests – annual review Annual Treasury Management Activity Report 2017/18 – Needs to go on to Full Council Health, Safety and Welfare (Annual Report) Going Concern Assessment Financial Statements’ training 	Angela Watson Finance Specialist Pam Harvey Paul Fitzgerald Finance Specialist
19 Jul 18	<ul style="list-style-type: none"> Approve Annual Statement of Accounts Approve Summary of Accounts External Audit – Audit Findings Report External Audit – VFM Conclusion Internal Audit Annual Opinion and the 2017/18 Quarter 4 update 	Finance Specialist Finance Specialist Paul Fitzgerald (GT) Paul Fitzgerald (GT) Laura Wicks
23 Aug 18	<ul style="list-style-type: none"> Internal Audit – First Quarter Update 	Laura Wicks
27 Sep 18	<ul style="list-style-type: none"> Treasury Management Practices 	Finance Specialist
25 Oct 18	<ul style="list-style-type: none"> Mid-year review of Treasury Strategy – Needs to go on to Full Council 	Finance Specialist
22 Nov 18	<ul style="list-style-type: none"> Treasury Management – half yearly monitoring Internal Audit – second Quarter update External Audit - Annual Audit Letter Annual Fraud Programme 	Finance Specialist Laura Wicks (SWAP) Paul Fitzgerald (GT) Legal Specialist
20 Dec 18	<ul style="list-style-type: none"> Provisional date if required 	
24 Jan 19	<ul style="list-style-type: none"> Treasury Management Strategy Statement 19/20 – Needs to go on to Full Council 	Paul Fitzgerald
28 Feb 19	<ul style="list-style-type: none"> Internal Audit – third quarter update 	Laura Wicks (SWAP)
28 Mar 19	<ul style="list-style-type: none"> Internal Audit Plan – approve 2019/20 plan Internal Audit – Charter 	Laura Wicks (SWAP) Laura Wicks (SWAP)