

Audit Committee  
Devon County Council  
Progress Report and Update  
Year ended 31 March 2016

March 2016

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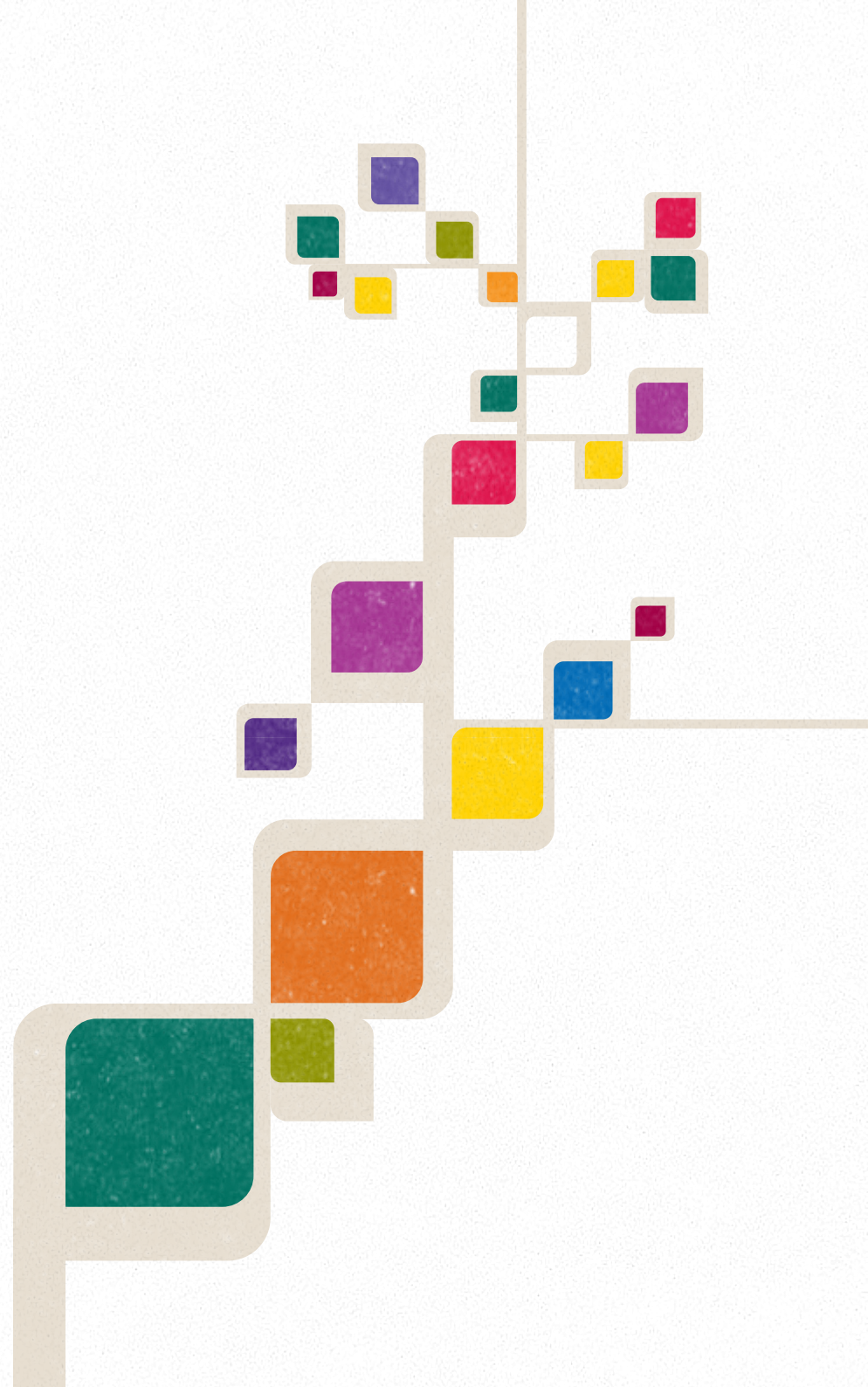
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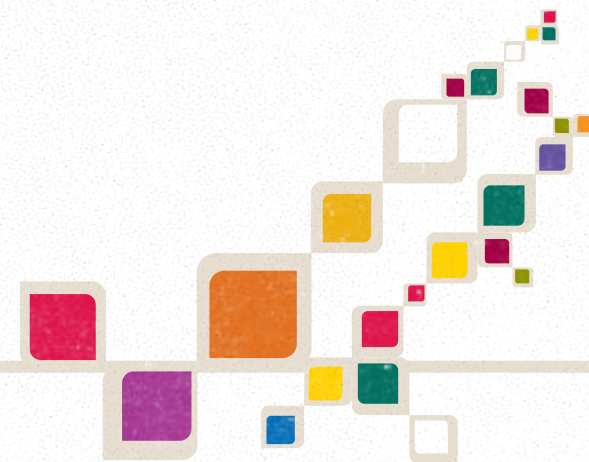
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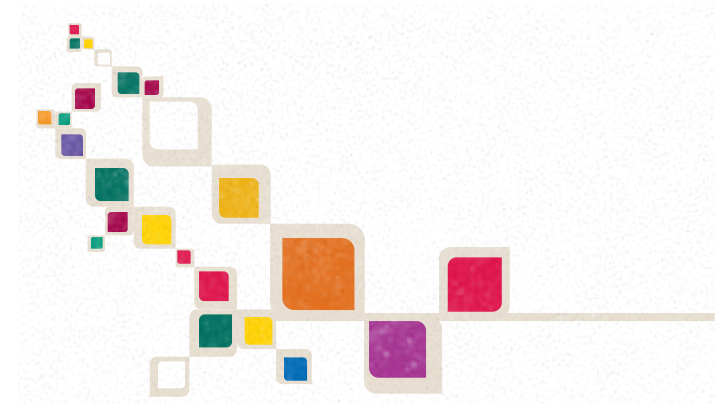
# Introduction

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

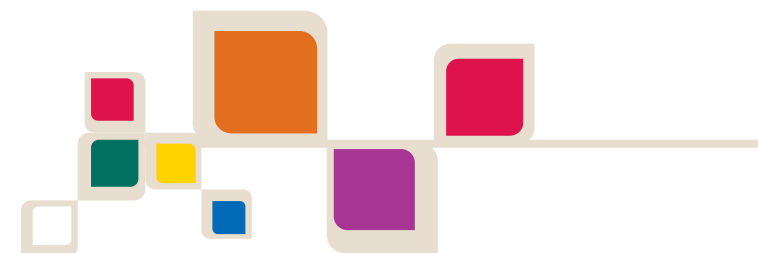
Members of the Audit and Assurance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Reforging Local Government (December 2015); [www.grantthornton.co.uk/insights/reforging-local-government/](http://www.grantthornton.co.uk/insights/reforging-local-government/)
- Innovation in public financial management (December 2015); [www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/](http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/)
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); [www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015) [www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)

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.

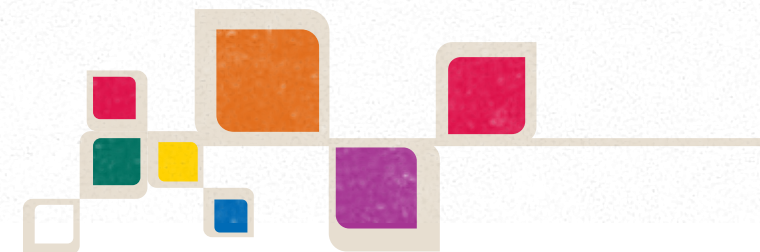


# Progress at 14<sup>th</sup> March 2016



2015/16 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015</p>		Yes	The 2015/16 fee letter was issued in April 2015
<p><b>Accounts Audit Plan</b></p> <p>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 2015-16 financial statements.</p>	March	In progress	Our audit plan has been drafted and is included as a separate agenda item for the Audit Committee to consider.
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	January – March	In progress	Our interim audit work is in progress. This includes early audit testing where practical to support a more efficient final accounts audit.
<p><b>Final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> </ul>	June - August	Not started	We are planning to complete our audit by 31 <sup>st</sup> August as part of the transition to the earlier closedown and audit cycle from 2018.

# Progress at 14<sup>th</sup> March 2016



2015/16 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>March - July</p>	<p>In progress</p>	<p>We have considered the potential significant risks for our VfM conclusion and identified the following issues.</p> <ul style="list-style-type: none"> <li>- Better Care Fund</li> <li>- Medium term financial planning and transformational change</li> <li>- Financial outturn</li> </ul> <p>We will carry out key document reviews and interviews to inform our conclusion.</p>



# Local Government Accounting and other issues





# Better Care Fund

The Better Care Fund was launched on 1 April 2015 to ‘...drive closer integration and improve outcomes for patients and service users and carers’. The intention was to set up the fund as a pooled budget with NHS organisations and local authorities contributing into a single pot that is used to commission or deliver health and social care services.

In practice, different Better Care Fund agreements have different and sometimes complex arrangements. As a result determining the correct accounting can be difficult and there is no one size fits all approach. NHS and local government partners need to agree on accounting for such arrangements to ensure that not only are there no material errors in their own accounts but also that there are no material errors on consolidation into Whole of Government Accounts.

NHS and local government partners therefore need to consider the specific terms of their agreements and considering where the control and risks lie in line with the definition of control in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. Individual authorities also need to consider whether they are acting as a principal or an agent. Judgement may be required, and may therefore need to be disclosed as a critical judgement in the accounts.

In many areas, including the South West, the value of funds committed to pooled budgets is highly material so it is important that both CCGs and councils get the accounting right.

Our sector intelligence indicated that practitioners across both the health and Local Government sector wanted further guidance on accounting for pooled budgets, including the BCF.

Grant Thornton ran a free seminar on January 13th considering the accounting issues around the BCF and Pooled Budgets. It was attended by 35 finance officers from councils and CCGs in the South West (including Peter Lappin and Paul Love from Devon County Council). By bringing representatives from both sectors together it was possible to facilitate a consistent approach to accounting. If the accounting is not consistent it could lead to material errors within accounts and also between bodies which would create difficulties with the NHS agreement of balances exercise and whole of government accounts.

The actual accounting approach is dependent on the detail of the local agreements and the operation of the funds. The seminar considered:

- relevant accounting standards
- the nature of controls and the impact on the accounting treatment
- accounts disclosure requirements; and
- the approach to auditing the funds

The seminar ended with a session on action planning.

# Local Authority Trading Companies

On 11th February Grant Thornton hosted a free client seminar, in Taunton, looking at Local Authority Trading Companies (LATC). It was attended by 29 officers from councils in the South West (including Helena Freeman from Devon County Council).

As councils look for different ways to reduce costs, improve efficiency and generate income some are setting up local authority trading companies. We predict that the number of these companies will continue to grow over the next five years.

The seminar considered the themes set out in our recent report, 'Spreading their Wings', focusing on how to set up and build successful local authority trading companies.

Attendees heard from Grant Thornton Local Government Advisory and Tax colleagues, with a focus on the complexities of Corporation tax, SLDT, VAT and Employment taxes when entering into such arrangements.

Martin Farrow from Buckinghamshire Care Limited shared his experiences from the Buckinghamshire Care journey "A merger between sustainability and purpose". He set the scene – underfunded social care, government savings, rising demand, and ageing population, service cutbacks mean a lot fewer people receiving services. The solution? A seismic shift in commissioning.

Hugh Lambourne from Bournemouth Borough Council explained his Council's approach to developing its commercial services "Building a successful LATC & Commercial Council". Offering an insight into why you might create an LATC or alternatively why you might choose not to trade through an LATC. The day ended with a panel session with Martin and Frank being joined by Sarah Longthorpe - Bournemouth Borough Council, Giles Letheren – Delt Shared Services limited and Frank Wilson – Ubico Limited. A lively set of questions were posed by delegates.

You can download a copy of the Grant Thornton report – Spreading their wings from the website at [www.grant-thornton.co.uk/en/Sectors/Government--Public-Sector/](http://www.grant-thornton.co.uk/en/Sectors/Government--Public-Sector/)

Hard copies are also available from your Engagement Lead and Audit Manager.

Grant Thornton's next report on Joint Ventures will be available at the end of March





# Grant Thornton Publications





# Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.



Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.

Our research suggests that:

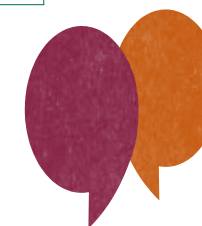
- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.



# CFO Insights – driving performance improvement

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

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



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

# Innovation in public financial management

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

**Changing practices.** Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

**The right PPP formula.** 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of

their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

**Transparency with technology.** Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

**The new normal.** Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons of one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website:  
<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

Grant Thornton reports





# 2016 Transparency Report

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets our most recent financial information.

The report can be downloaded from our website:

[www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf](http://www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf)

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

Grant Thornton reports



Transparency report 2016  
*Our commitment to brighter futures*





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