

# Audit Progress Report and Sector Update

Devon County Council  
Year ending 31 March 2018

12 March 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
- 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 here to be directed to the website: [www.grant-thornton.co.uk](http://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 12 March 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and have produced 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 at the end January 2018. Our interim fieldwork visit includes:

- 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 e.g. the restatement of the Council's 2016/17 'telling the story' figures as a result of the Council's internal restructuring

The findings from the interim audit work completed to date are summarised on pages 6 and 7.

We are currently piloting a new software package that will facilitate our audit testing and make the audit process more efficient for ourselves and the Council.

At the time of writing, we had not received all of the data requested from the Council and we will report the conclusions of interim audit to the May 2018 Audit Committee meeting.

The final accounts audit is due to begin on the 18 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 completed our initial risk assessment to determine our approach in 2017 /18 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

### Objections to the Council's financial statements

As reported in our 2016/17 Audit Findings Report, we received objections in respect of the Council's financial statements for both 2015/16 and 2016/17.

We wrote the objector in December 2017 regarding the 2015/16 objection. We subsequently issued our certificate for 2015/16 on 27 February 2018 and that matter is now closed. We will brief the Chair of the Audit Committee on this matter.

We have made significant progress on the 2016/17 objection and will update the Audit Committee on 28 March 2018.

### Meetings

We met with Finance Officers and the Chief Executive in February 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.

### Events

We provide a range of workshops, along with network events for Officers and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Audit Committee Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> 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. The audit plan will also include our initial value for money risk assessment.	March 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	May 2018	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work. It is a public facing summary of the Audit Findings Report, with updates on matters that were not completed in July e.g. the Whole Of Government Accounts work. The deadline for submitting the Annual Audit Letter to Public Sector Audit Appointments Ltd (PSAA) is 31 October 2018. We will be pleased to share this with Members once it has been produced and will present it at the November Audit Committee.	November 2018	Not yet due

# Results of interim audit work completed to date

Our interim audit work is on-going, however the findings of our interim audit work to date, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Internal Audit</b>	<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>
<b>Entity level controls</b>	<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"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

# Results of interim audit work completed to date (cont'd)

	Work performed	Conclusions and recommendations
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT (information technology) 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>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
<b>Walkthrough testing</b>	<p>We plan to walkthrough the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>As set out in our audit plan, this includes employee remuneration, operating expenses, Property, Plant and Equipment (PPE) valuation, journals and the net pension fund liability.</p> <p>We have completed our work on operating expenses and this 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>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p> <p>We will supplement this assessment with further testing and update you as part of our next Audit Committee update.</p>
<b>Early substantive testing</b>	<p>We have undertaken early substantive testing in the following areas:</p> <ul style="list-style-type: none"> <li>• Payroll - substantive analytical procedures for the first nine months of the year.</li> <li>• Review of opening balances.</li> <li>• Review of proposed CIES restatement to reflect the changes to internal reporting.</li> </ul>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p>

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# Sector Update

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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.

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.

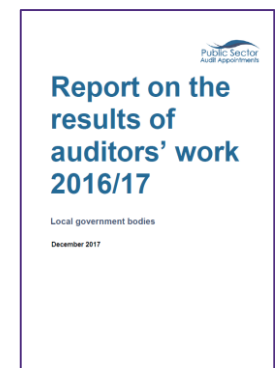
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging 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 the 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.



# 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.

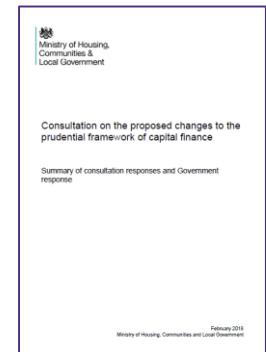
## Minimum Revenue Provision Guidance

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:

Has your finance team briefed members on the impact of the changes to the prudential framework of capital finance?

# CIPFA publications - The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

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.

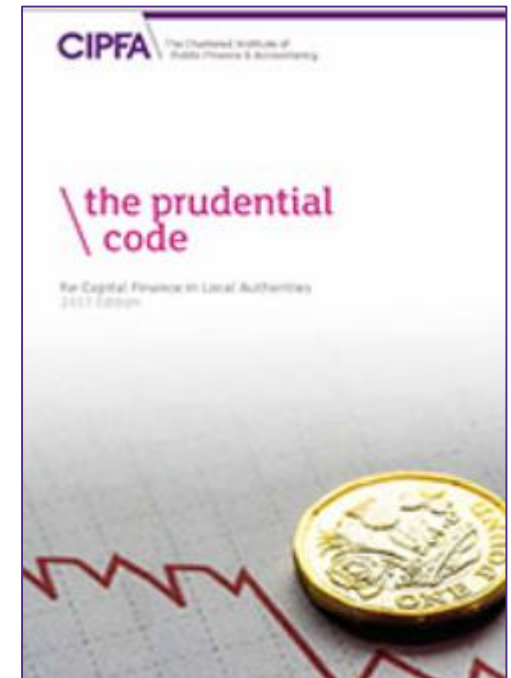
The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable,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

### Challenge question:

Has your finance team briefed members on the impact of the changes to the prudential code?



# The adult social care workforce in England

This National Audit Office report considers the Department of Health & Social Care's role in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users' needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

The Department of Health and Social Care is not doing enough to support a sustainable social care workforce. The number of people working in care is not meeting the country's growing care demands and unmet care needs are increasing, according to the report. While many people working in care find it rewarding, there is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. In 2016-17, around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17), equivalent to £14,625 annually. This, along with tough working conditions and a poor image, prevents workers from joining and remaining in the sector.

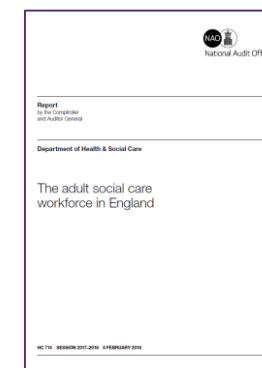
There are around 1.34 million jobs in the adult social care sector in England, across more than 20,300 organisations. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7%. However, demographic trends suggest that demand for care will continue to increase and people's care needs will continue to become more complex. To meet these challenges, the Department estimates that the workforce will need to grow by 2.6% every year until 2035.

The social care market is operating in challenging circumstances. Care providers, already under financial pressures, are struggling to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is expected to reduce further over the next two years due to continued government funding cuts and increased financial pressures on local authorities. Uncertainty over funding is limiting local authorities' ability to plan future spending on care.

The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers' income comes from local authority-arranged care. The vast majority of local authorities are paying fees to homecare providers that are below the recommended minimum price for care, putting providers in financial difficulties. Furthermore, local authorities are not paying the full cost for care home placements. If this continues, there is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care.

The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. Furthermore, the NAO has not found any evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care, to help with the challenge. Without a national strategy to align to, few local areas have detailed plans for sustaining the care workforce.

The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities.



# 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 25<sup>th</sup> 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?

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# Links

## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## PSAA website links

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

## MHCLG 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/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

## National Audit Office link

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

