

# Audit Committee Update for Shropshire Council

## Progress Report and Update Year ended 31 March 2017

September 2017

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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 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:

- Income generation is an increasingly essential part of providing sustainable local services (March 2017); <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; (April 2017) <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

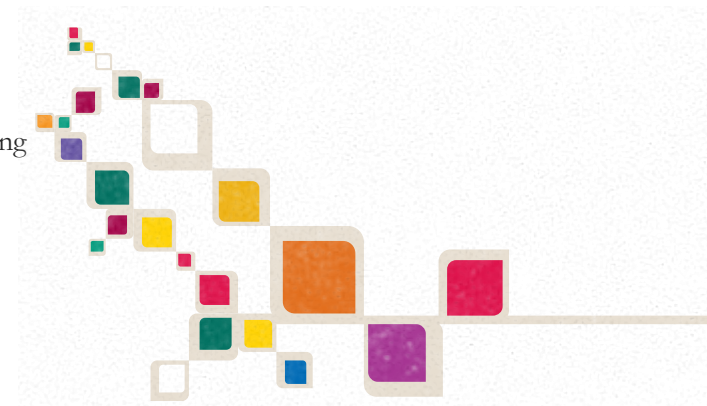
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

## Members and officers may also be interested in our recent webinars:

**Alternative delivery models:** Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

**Cyber security in the public sector:** Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

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



# Progress to date



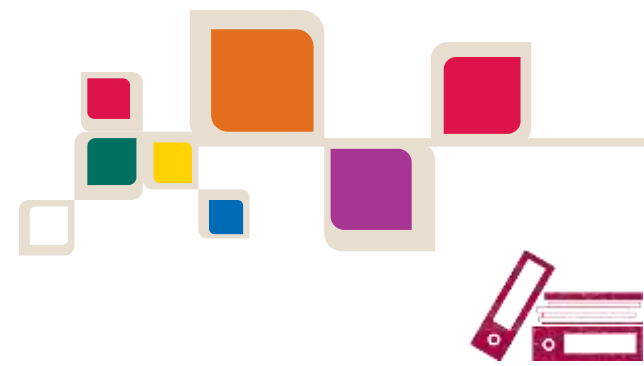
## Progress against plan

On track



## Opinion and VfM conclusion

Plan to give before deadline of 30 September 2017

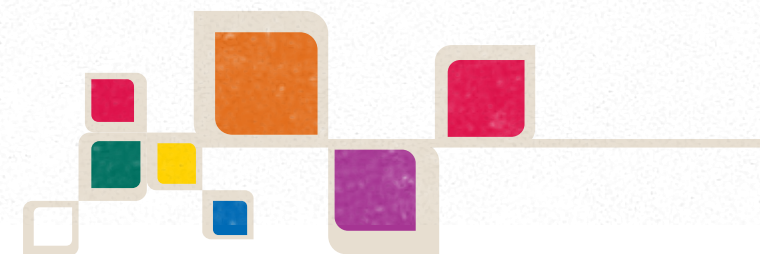


## Outputs delivered

Fee letter, Progress Reports, and interim audit delivered to plan

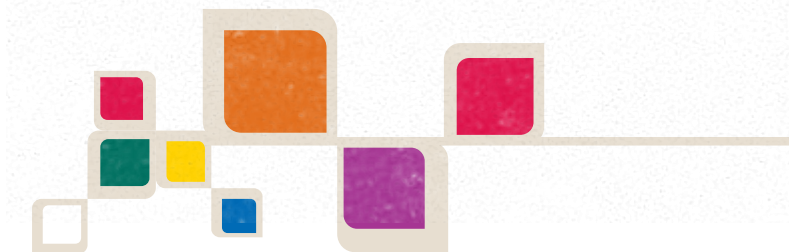
2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter' for 2016/17 to the Council by the end of April 2016.</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan covering the audit for the Council setting out our proposed approach in order to give an opinion on the financial statements, including the group consolidations in 2016/17.</p>	February 2017	Yes	<p>We continue to assess the risks facing you and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.</p> <p>If there are any changes to our plan once issued we will discuss this with the appropriate Senior Officers and agree with the Head of Finance, Governance and Assurance.</p>
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visits covers work on the Council's arrangements, including:</p> <ul style="list-style-type: none"> <li>• updating our review of the control environments</li> <li>• updating our 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> </ul>	January – April 2017	Yes	<p>We have:</p> <ul style="list-style-type: none"> <li>• engaged with the finance team to further streamline and improve the audit approach for 2016/17 where possible.</li> <li>• discussed emerging technical issues early.</li> <li>• followed up progress on recommendations made in 2015/16.</li> <li>• undertaken as much early testing as possible.</li> </ul> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>

# Progress to date



2016/17 work	Planned Date	Complete?	Comments
<b>Final accounts audit</b>			
Covering the Council's group financial statements, we will: <ul style="list-style-type: none"> <li>audit the 2016/17 financial statements</li> <li>proposed opinion on the 2016/17 financial statements</li> </ul>	June – July 2017	Substantially complete	<p>Our work on the financial statements is substantially complete. We have identified very few issues within the audit and have concluded that we are able to provide an unqualified opinion. We plan to do this after the Pension Fund Committee towards the end of September.</p> <p>We planning to complete our on-site work by 31<sup>st</sup> July, as part of the transition to the earlier closedown and audit cycle from 2017. This has not happened, but we have already identified areas for improvements on both sides and have a wash-up meeting booked for September to address known issues early and position the Council in the best position to meet the deadline in 2018.</p>
<b>Value for Money (VfM) conclusion</b>			
<p>The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</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>	February – July 2017	Substantially complete	<p>We identified the following significant risks for our VFM conclusion.</p> <ul style="list-style-type: none"> <li>Financial resilience over the medium to long term – the Council requires savings to close a funding gap of £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging. In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves. There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years.</li> <li>Replacement of IT infrastructure / business continuity – the Council is aware of the requirement to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the on-going functioning of the Council.</li> </ul>
			<p>We are proposing to issue an unqualified opinion for 2016/17 but the Council has significant financial risks for 2017/18 and beyond.</p>

# Progress to date



2016/17 work	Planned Date	Complete?	Comments
<p><b>Annual Audit Letter</b></p> <p>We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.</p>	October 2017	Not started	
<p><b>Grant work (PSAA regime)</b></p> <p>We plan to certify the Housing Benefits Subsidy Claim 2016/17 (BEN01)</p>	February – November 2017	In progress	We have undertaken sufficient work for the BEN01 claim to enable us to gain assurance on the housing benefit figures within your financial statements. This work will also be used to provide assurance on the BEN01 claim.
<p><b>Engagement with you since the last Audit Committee meeting</b></p>	On-going	On-going	<ul style="list-style-type: none"> <li>• Updates with the Chief Executive and Head of Finance, Governance and Assurance on your business.</li> <li>• Meetings with other Senior Directors to support the value for money conclusion and further understand your wider business ambitions.</li> <li>• Circulation of our latest collateral to Senior officers.</li> <li>• Discussion re developments in your company, ip&amp;e Ltd, ahead of the audit in September.</li> </ul>

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# Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires. With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation.

Our new research on income generation which includes our CFO Insights tool suggests that:

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

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

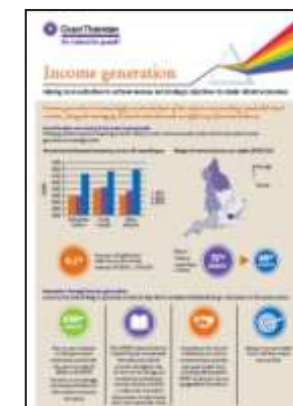
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

## Grant Thornton publications

### Challenge question:

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



Our Income generation report was published on Thursday 2 March, hard copies are available from your team and via link:

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

# Publications

Providing key insight and examples of best practice to local government, police, fire and rescue services.



## Innovation in public financial management

Our research on international public financial management shows it is evolving, from having a narrow focus on budgeting, towards a wider mandate as a key driver of policy and strategy across all levels of government, public services, state enterprises and public-private partnerships.



## Turning up the volume

Our Business Location Index identifies the most desirable and affordable areas for investment in England, by looking at a combination of economic performance, people & skills, environment & infrastructure and cost.

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



## Reforging local government

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

Our report looks at the financial challenge facing councils, the new governance agenda that will challenge traditional arrangements and expectations, and the way forward for the public sector through devolution, innovation, collaboration and cultural change.



## Making devolution work

This report gets under the bonnet of the devolutionary conversations taking place between Whitehall and local government across England. It offers a practical guide to local leaders by outlining the benefits of devolution, the areas of priority to central government and the key questions that must be addressed in order to produce a successful devolution bid.



## Growing healthy communities

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live.

Our health and wellbeing index looks at the health determinants and outcomes of an area, highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes. It also identifies the wider economic determinants on an area's circumstances, emphasising the need for local collaboration between public sector bodies.



## Spreading their wings

Our first report in a series looking at alternative delivery models in local government looks at local authority trading companies (LATCs).

The need to improve performance against the continuing financial pressure in the public sector has led to an increase in innovative solutions to the challenges, such as alternative delivery models. Our report provides a guide on building a successful LATC, identifying the areas that must be considered at each stage of the process, as well as offering a number of examples of best practice.

Hardcopies of these reports are available from your audit team





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