

GOVERNANCE COMMITTEE

WEDNESDAY, 24TH JANUARY 2018, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

AGENDA

APOLOGIES

1 DECLARATIONS OF ANY INTERESTS

Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.

If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter.

2 MINUTES OF MEETING WEDNESDAY, 20 SEPTEMBER 2017 OF GOVERNANCE COMMITTEE

(Pages 3 - 8)

3 HCA AUDIT OF COTSWOLD HOUSE PROJECT

(To Follow)

Report of the Chief Finance Officer (to follow)

4 IMPLICATIONS OF REVISED CIPFA PRUDENTIAL CODE AND TREASURY MANAGEMENT CODE

(To Follow)

Report of the Chief Finance Officer (to follow)

5 UPDATE ON THE CLOSURE OF ACCOUNTS 2017/18

(To Follow)

Report of the Chief Finance Officer (to follow)

6 INTERNAL AUDIT INTERIM REPORT AS AT 29 DECEMBER 2017

(Pages 9 - 14)

Report of the Head of Shared Assurance Services.

7 CHORLEY ANNUAL AUDIT LETTER 2016/17

(Pages 15 - 26)

Report of the External Auditor

8 CHORLEY CERTIFICATION LETTER 2016/17

(Pages 27 - 30)

Report of the External Auditor

9 **CHORLEY GOVERNANCE COMMITTEE UPDATE REPORT**

(Pages 31 - 50)

Report of the External Auditor

10 **ANNUAL GOVERNANCE STATEMENT - PROGRESS ON
MANAGEMENT ACTIONS**

Report of the Monitoring Officer (to follow)

11 **RIPA APPLICATION UPDATE**

The Monitoring Officer will present a verbal report at the meeting.

12 **ANY URGENT BUSINESS PREVIOUSLY AGREED WITH THE CHAIR**

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Gordon France, Danny Gee, Debra Platt and Kim Snape.

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MINUTES OF GOVERNANCE COMMITTEE

MEETING DATE Wednesday, 20 September 2017

MEMBERS PRESENT: Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Danny Gee, Debra Platt and Kim Snape

OFFICERS: Gary Hall (Chief Executive/Statutory Finance Officer), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), James Thomson (Interim Financial Services Manager), Michael Jackson (Principal Financial Accountant), Dawn Highton (Principal Auditor) and Nina Neisser (Democratic and Member Services Officer)

APOLOGIES: Councillor Gordon France

OTHER MEMBERS: Peter Ripley (Independent Member), Mark Heap (Grant Thornton UK LLP) and Simon Hardman (Grant Thornton UK LLP)

17.G.96 Minutes of meeting Wednesday, 21 June 2017 of Governance Committee

RESOLVED – That the minutes of the Governance Committee held on 21 June 2017 be held as a correct record for signing by the Chair.

17.G.97 Declarations of Any Interests

There were no declarations of interest received.

17.G.98 External Audit Findings Report 2016/17

The Chair advised the Committee that the External Audit Findings Report 2016/17 would be considered first on the agenda.

The Committee received a report of the External Auditor on their audit findings for the authority for the year ending 31 March 2017 that highlighted key matters arising for the Council's financial statements.

The Auditor intended to issue an unqualified opinion on the financial Statements and Value for Money conclusion on 30 September 2017. One adjustment had been identified that amended the Council's reported financial position. However this was essentially a timing issue and did not reduce the level of resources available in 2017/18.

The key messages arising from the external audit of the Council's financial statements were;

- A £2.4m grant was incorrectly credited to the Comprehensive Income and Expenditure Statement (CIES) in 2016/17 as the conditions set out in the agreement with the Homes and Communities Agency (HCA) had not been met;
- One issue was identified where the Council decided not to amend as they concluded it did not have a material impact on the understanding of the financial statements;
- A small number of disclosure issues were also amended.

The External Auditors indicated that they would require a representation as to why Chorley Council chose not to amend the identified issue. This would be addressed in the Letter of Representation to be signed by the Chief Finance Officer and the Chair of Governance Committee.

Members were informed that to address the significant financial implications the council faced, risk management arrangements had been implemented. An initial risk assessment was undertaken in February 2017 and two significant risks were identified. Based on the work performed to address the significant risk, it was concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. Overall it was considered that the Council had a good set of accounts.

Members expressed concern with regards to the time taken to reach this level as the draft Statement of Accounts had been completed on 12 June 2017. External Audit informed the Committee that they had been working hard and still anticipated meeting the 30 September deadline.

Officers recognised that there had been a number of external and internal issues that had affected working towards meeting the deadline. Reassurances were made that discussions would be held following the deadline to assess this process and suggest improvements. It was agreed that this would be brought back to the next scheduled Governance Committee to ensure that this be mitigated for the next financial year.

RESOLVED – That the report be noted.

17.G.99 Statement of Accounts 2016/17

The Chief Executive submitted a report for Committee approval of the audited Statement of Accounts (SOA) for its publication by 30 September 2017 under the requirement of the Accounts and Audit Regulations 2015. Once approved, the signed Statement would be published on the Council's website.

Members were informed that material changes to the SOA from the draft version published on 23 June 2017 related to the accounting treatment of a £2.404m capital grant from the Homes and Communities Agency (HCA); netting off the Bank Overdraft from Cash and Cash equivalents in Current Assets; and restating the 2015/16 figures for receivable rents in the Leases note. Other changes to the Statement were explained in the report.

It was understood that the Appointed Auditor intended to issue an unqualified audit opinion of the SOA; an economy, efficiency and effectiveness in use of resources (“Value for Money”) conclusion.

The Committee was advised that at the time of preparing the report and the current version of the SOA, the auditors were still undertaking a limited amount of checks. Due to the audit not having been finalised, it was possible that further changes to the SOA could be required. As a consequence it was recommended that the Chief Finance Officer in consultation with the Chair of the Governance Committee should approve any non-material amendments before recertifying the SOA. In the event that the Chief Finance Officer was of the opinion that the amendments were considered material, the Governance Committee would be reconvened to approve the new SOA.

It was reported that the main adjusted misstatement was in respect of the accounting treatment of a capital grant from the HCA, for the financing of the Primrose Gardens Retirement Living capital project. The £2.404m HCA grant was accrued in the 2016/17 accounts, the cash having been received in early April 2017.

To credit the grant to the Comprehensive Income and Expenditure Statement (CI&ES) in 2016/17, all conditions relating to the grant should have been met by 31 March 2017. As the conditions had not been met, the grant should not have been transferred via the Movement in Reserves Statement to Usable Reserves (Capital Grants Unapplied Reserve). Instead the accounting treatment at present agreed that it should have been credited directly to Balance Sheet account Grants Receipts in Advance - Capital. The HCA grant was still in the Council’s accounts for 2016/17, but it had been moved from Usable Reserves to Long Term Liabilities. Though this had the effect in 2016/17 of reducing both Net Assets and Total Reserves by £2.404m, the HCA grant remains available to finance capital expenditure from 2017/18 onwards.

Although the Council treated Cash and Cash Equivalents as being net of the Bank Overdraft, on the face of the Balance Sheet the Bank Overdraft was shown separately within Current Liabilities. It had subsequently been netted off Cash and Cash Equivalents within Current Assets. This adjustment by £0.834m did not affect Net Assets and Total Reserves.

The current version of the SOA 2016/17 included the AGS approved on 21 June 2017. The revised AGS for approval included a number of changes suggested by the external auditors. If approved, the AGS in the SOA would be replaced by the revised version prior to publication.

RESOLVED;

- 1. That the report be noted.**
- 2. Approval of the Statement of Accounts for 2016/17.**
- 3. Approval granted for the authorisation of the Chief Executive to sign off the Letter of Representation.**
- 4. That the AGS included within the SOA be updated to include any changes to the AGS as approved at the meeting.**

17.G.100 Treasury Management Activity Mid-Year review 2017-18

The Governance Committee received a report of the Chief Executive which indicated the Treasury Management performance and compliance with Prudential Indicators in the financial year 2017/18 to the end of July.

It was reported that compared to 2016/17, the main change had been the lower balance available to invest, which meant that it had not been possible to invest for longer periods in order to achieve higher interest rates. There were no changes proposed to the current list of Financial Institutions and Investment Criteria. Officers were not proposing changes to any prudential indicators at present and therefore it was recommended that the report be noted.

The Prudential Code required that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. The Treasury Management Annual Report 2016/17 concluded that the net borrowing would not exceed the CFR in 2017/18. It was understood that as there was a large margin between net borrowing and the CFR. The Operational Boundary for external debt was set at a value based on the CFR to allow additional external borrowing should cash balances be depleted, without breaching the Prudential Indicator. However, use for internal borrowing was the most effective use of the Council's cash balances while available, and so far in 2017/18 no new long term external borrowing had been taken.

The Principal Financial Accountant reported that the average interest earned was 0.18% to the end of July 2017, which exceeded the target of 0.13%. As in 2016/17, cash balances had been used as a source of internal borrowing to minimise external borrowing at higher rates of interest, thereby achieving revenue budget savings. To date the average interest earned had not exceeded the Capita suggested earnings rate of 0.25% for 2017/18.

Compared to the previous interest rates forecast, PWLB borrowing rates were slightly lower than expected. Gradual increases through to March quarter of 2020 were still forecast. If rates began to increase more steeply, it could become advisable to take additional borrowing sooner rather than later to achieve longer term savings.

Members were informed that to continue using regulated products such as money market funds (MMFs), Chorley Council would have to opt-up to Professional Client status. It was estimated that the Council would fail the minimum financial instrument portfolio size test of £10m and therefore would not be able to use MMFs from January 2018. It was anticipated that this would increase the likelihood of having to deposit cash in the Debt Management Office's Debt Management Account Deposit Facility at a low rate of interest, but with a high degree of security. Other local authorities could offer a slightly higher rate of interest than the DMO for short-term deposits, but there was no certainty of finding a council which required cash at the same time that Chorley Council needed to invest funds temporarily.

The Principal Financial Accountant notified the Committee of proposed changes to CIPFA's Treasury Management Code and Prudential Code. Several of the proposed changes were inevitably of a technical nature, and those incorporated into the Codes would be explained when implemented. It was agreed that training would be provided to Members of the Governance Committee to address the changes. At present, it was understood that the proposed changes would not affect Chorley Council and the existing capital expenditure plans.

Following queries, Officers reassured Members that the use of the Councils' Treasury advisors, Capita Asset Services, had many functions and benefits for the council, which included advising on technical accounting and providing recommendations and guidance. It was recognised that bigger organisations were able to employ their own

expertise however as a smaller organisation it was advised that Capita were one of the best on the market. Members were reminded that the council set its own policy based on government and CIPFA guidance whilst also being aware of other options available in order to provide alternatives if required. It was understood that the council were under a duty to report to the Governance Committee to get the best benefit from cash balances.

Members discussed other alternatives to PWLB borrowing including approaching other local authorities. Officers held concerns with borrowing from local authorities due to uncertain interest and only providing short-term as opposed to long-term borrowing. It was understood that national figures for expenditure indicated that PWLB was the biggest lender to local government authorities and provided the lowest rate of interest. However, it was agreed that Officers would continue to assess the alternative options available for the council to gain the best value for money.

RESOLVED – That the report be noted.

17.G.101 Annual Governance Statement - Amendment

The Director of Policy and Governance submitted a report to inform Members of the Governance Committee of the proposed amendments to the Annual Governance Statement which had been suggested after consideration by external audit.

Members were reminded that at the Committee meeting on 21 June, the Governance Committee approved a draft Annual Governance Statement (AGS) which formed part of the council's Statement of Accounts.

Following approval and as part of the audit process, External Audit reviewed the AGS and suggested some amendments which were incorporated into the AGS document. The changes did not affect the conclusions of the AGS, that the Council had a strong robust system of corporate governance, but enhanced the document by providing additional supporting evidence which demonstrated the council's compliance with our governance framework.

It was noted that the AGS as drafted satisfied the requirements of the CIPFA SOLACE Framework, but the amendments would make it clearer how the Council discharges its obligations.

External audit made the following recommendations;

- a) Greater information should be provided concerning the role of the Section 151 Officer and Head of Shared Assurance Service;
- b) The Council's arrangements for counter fraud and anti-corruption should be given greater prominence;
- c) More information should be provided as to the communication between the Council and external audit;
- d) It should be made clear that the Governance Committee fulfils the functions of an Audit Committee;
- e) Greater reference should be made to partnership working;

In other areas it was suggested to provide additional examples of compliance to give a fuller picture of the steps the Council take. It was advised that if approved, the amended AGS would be appended to the SOA.

RESOLVED – That the amended Annual Governance Statement be approved for adoption and signature by the Executive Leader of the Council and the Chief Executive.

17.G.102 Internal Audit Progress Report as at 28 July 2017

The Head of Shared Assurance Services submitted a report to the Governance Committee advising Members of the work undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Services for the period 1 April 2017 to 28 July 2017 and to comment on the outcomes as well as to give an appraisal of the Internal Audit Service's performance to date.

Members were informed that Internal Audit had been supporting the AGS by proactively providing advice and guidance. The report demonstrated that at this stage the Audit Plans were on target to be achieved and the majority of the performance indicators had either been achieved or exceeded.

The Governance Committee recalled that earlier this year, the Council procured a risk management system (GRACE), which allowed the continuous recording, monitoring and reporting of risks at all levels throughout the Council.

Since the implementation of GRACE in April 2017, Internal Audit had delivered training to 72 Chorley Council and Shared Services Officers. In addition, a further 10 external consultants who were assisting with the population of key project risk registers were also trained. Officers were currently in the process of delivering training to all members of the Senior Management Team (SMT) and developing the reporting arrangements at both corporate and service level.

It was agreed with SMT that Internal Audit would provide support with the development/enhancement of key risk registers including; the Corporate Risk Register, Corporate Plan Projects and Key Partnerships. Whilst these risk registers were at various stages of development, there were currently over 190 individual risks being continuously reviewed and monitored by the risk owners. The committee was assured that good progress was being made.

The Chief Finance Officer reminded the Committee of a previous issue regarding the CIL system. Members were reassured that controls put in place to mitigate this had improved the issue significantly in the past year.

RESOLVED – That the report be noted.

17.G.103 RIPA Application Update

The Monitoring Officer reported that there had been no RIPA applications made.

Chair

Date

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	24 th January 2018

INTERNAL AUDIT INTERIM REPORT AS AT 29TH DECEMBER 2017

PURPOSE OF REPORT

1. To advise members of the work undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Services for the period August 2017 to December 2017 and to comment on the outcomes;
2. To give an appraisal of the Internal Audit Service’s performance to date.

RECOMMENDATION(S)

3. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

4. The report demonstrates that at this stage the Audit Plans are on target to be achieved and the majority of the performance indicators have either been achieved or exceeded.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

5. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all.		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	X

BACKGROUND

6. This is the second progress report for 2017/18 and covers the period between 31st July 2017 and 29th December 2017.

INTERNAL AUDIT PLANS

7. **Appendix 1** provides a “snapshot” of the overall progress made in relation to the 2017/18 Internal Audit Plans, indicating which audits have been completed and their assurance rating, those that are in progress and those that have yet to start. Appendix 1 also shows the time planned and actually spent on individual audits.
8. The table below highlights the main pieces of work undertaken during the period together with any control issues identified, where applicable;

Audit Area	Assurance Rating	Comments
Chorley Council		
National Fraud Initiative	Not applicable	Investigations undertaken of the 2016/17 exercise are still on-going and to date have identified overpayments of housing benefit and council tax reduction scheme of £20,233 which is currently being recovered. Data for the Council Tax (Single Person Discount) and the Electoral Register was submitted in December 2017, with 1651 matches identified which are now being investigated.
NNDR	Amber (8) Substantial	No significant control weaknesses were identified however an independent review of the awarding of reliefs and discounts should be introduced.
Housing Benefit	Amber (4) Full	No key control issues identified.
Waste Contract Procurement	Not applicable	We are a member of the project team to provide advice and guidance on governance, control and risk. In addition we have provided support to enable the production of a robust risk register, which is being continuously reviewed and assessed.
Fleet Management	Amber (9) Adequate	There is evidence that the fleet management function is being effectively managed at an operational day to day level. There are a range of improvements to be made in relation to: <ul style="list-style-type: none"> • Updating of the Fleet Strategy to set out the aims and objectives of the service; • Driver licence checks to ensure completeness; • Document retention to ensure compliance with legislation; • Monitoring and recording of performance management information to assist with management decision-making, service planning, accountability and transparency.
General Data Protection Regulations	Not applicable	We are continuing to support the Head of Legal Democratic and HR Services in preparation for the introduction of GDPR in May 2018.

(GDPR)		
Homelessness	Amber (9) Adequate	<p>Whilst our work has confirmed that there are good arrangements in place to mitigate the majority of risks facing the service and that they are operating as intended, there are some areas within the service which should be strengthened relating to:</p> <ul style="list-style-type: none"> the development of health and safety risk assessments; the review and update of the Homelessness Prevention Strategy and ensuring that the Council can meet the requirements of the new Homelessness Reduction Act.
Primrose Garden Retirement Village	Not applicable	We are a member of the project team to provide advice and guidance on governance, control and risk. In addition we have provided support to enable the production of a robust risk register, which is being continuously reviewed and assessed.
Shared Services		
Treasury Management	Amber (8) Substantial	The controls in place for the management and administration of Treasury Management provide substantial assurance with only a couple of minor control weaknesses identified.

CONTROLS ASSURANCE KEY

<p>Risk Rating</p> <p>Minor, Standard, Major or Critical reflects the relative risk of each system and the impact on the Council if it was to fail.</p> <p>The risk rating for each audit has been agreed following a detailed risk assessment by Internal Audit and approval by Senior Management.</p>	Risk Rating	Critical	4	8	12	16
		Major	3	6	9	12
		Standard	2	4	6	8
		Minor	1	2	3	4
				Full	Substantial	Adequate
		Control Rating				
<p>Control Rating</p> <p>Limited - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist. Adequate - the Authority can place only partial reliance on the controls. Some control issues need to be resolved. Substantial - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist. Full - the Authority can place complete reliance on the controls. No control weaknesses exist.</p>						

INTERNAL AUDIT PERFORMANCE

9. **Appendix 2** provides information on Internal Audit performance as at 29th December 2017. All the indicators have either been achieved or exceeded with the exception of one indicator -% Audit Plan completed which is slightly below target due to one review being at draft report stage.

GOVERNANCE RISK AND CONTROL EVALUATION (GRACE)

10. The implementation of GRACE is continuing and since April 2017, over 92 Chorley Council, Shared Services Officers and external consultants have received training.
11. At the Governance Committee meeting in September 2017, we reported that over 190 risks were being continuously reviewed and monitored by risk owners. This figure has now risen to over 350 risks with both corporate and system level reports are now being routinely produced.

IMPLICATIONS OF REPORT

12. The matters raised in the report are cross cutting and impact upon individual services and the Council as a whole.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background papers include the 2017/18 Internal Audit Plans for Chorley Council and Shared Financial Services.

Report Authors	Ext	Date	Doc ID
Garry Barclay Dawn Highton	01772 625272 01257 515468	January 2018	Audit Interim report

INTERNAL AUDIT PLANS 2017/18

WORK AREA	Risk	Qtr	Est	Actual	Balance	Comments	Risk
CHORLEY COUNCIL						(+/-)	Rating
CORPORATE AREAS							
Annual Governance Statement	N/A	1	20	13.2	6.8	Complete	
Anti-Fraud & Corruption	N/A	ALL	10	6.5	3.5	on-going	
NFI	N/A	ALL	20	15.4	4.6	on-going	
POLICY & GOVERNANCE							
Legal, Democratic & HR Services							
Health & Safety - Streetscene	CRITICAL	4	15	9.5	5.5	In progress	
Time Management System	CRITICAL	4	15	0	15	To commence Q4	
Performance & Partnerships							
Performance Management Information	CRITICAL	3	15	11.9	3.1	In progress	
Key Partnership Framework	CRITICAL	4	15	0	15	To commence Q4	
CUSTOMER & DIGITAL							
Transformation							
Council Tax	CRITICAL	3	10	2.3	7.7	In progress	
NNDR	CRITICAL	3	10	12.1	-2.1	Complete	Amber (8) Substantial
Housing Benefits	CRITICAL	3	10	11.4	-1.4	Complete	Amber (4) Full
Sundry Debtors	CRITICAL	3	10	0.8	9.2	To commence Q4	
Planning							
Development Control	MAJOR	4	15	2.1	12.9	To commence Q4	
Waste & Streetscene							
Waste Contract Procurement	N/A	ALL	10	5.1	4.9	on-going	
Fleet Management	MAJOR	2	15	16.8	-1.8	Complete	Amber (9) Adequate
ICT Services							
Data Protection/ GDPR Implementation	MAJOR	ALL	15	5.7	9.3	on-going	
EARLY INTERVENTION							
Housing Options & Support							
Homelessness (including prevention)	MAJOR	1	15	18.2	-3.2	Complete	Amber (9) Adequate
BUSINESS DEVELOPMENT & GROWTH							
Development & Regeneration							
Primrose Garden Retirement Village -	N/A	ALL	10	10.2	-0.2	on-going	
Employment Skills & Business Support							
Digital Office Park	N/A	ALL	10	1.1	8.9	on-going	
Market Walk & Town Centre							
Market Walk	CRITICAL	2	15	17.6	-2.6	Draft report	
Property Services							
Commercial Properties / Estates	MAJOR	4	15	1.2	13.8	To commence Q4	
GENERAL AREAS							
Residual Work from 2016/17	N/A		20	33.2	-13.2		
Risk & Control Self-Assessment (GRACE)	N/A		30	29.4	0.6		
Post Audit Reviews	N/A		10	9.3	0.7		
Contingency / Irregularities			15	18.9	-3.9		
Governance Committee	N/A	ALL	15	11.2	3.8		
CHORLEY SUB-TOTAL			360	263	97		
SHARED SERVICES							
SHARED FINANCIAL SERVICES							
Treasury Management	CRITICAL		20	19.9	0.1	Complete	Amber (8) Substantial
Payroll	CRITICAL		20	0.2	19.8		
Creditor	CRITICAL		20	0.8	19.2		
SHARED ASSURANCE SERVICES							
Risk Management	CRITICAL		15	0	15		
General Areas							
Residual Work from 2016/17			20	29.7	-9.7		
Risk & Control Self-Assessment (GRACE)			5	4.5	0.5		
Post Audit Reviews			10	3.4	6.6		
Contingency / Irregularities			10	4	6		
SHARED SERVICES SUB TOTAL			120	62.5	57.5		

INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 29th December 2017

	Indicator	Audit Plan	Target 2017/18	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	53%	53%	Target achieved
		CBC	90%	67.5%	73%	Target exceeded
2	% audit plan completed	SS	100%	33%	33%	Target achieved
		CBC	100%	61%	54%	Below target - one review at draft report stage
3	% management actions agreed	SS	98%	98%	100%	Target exceeded
		CBC	98%	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	90%	0%	Not applicable
		CBC	90%	90%	90%	Target achieved

SS = Shared Services
CBC = Chorley

The Annual Audit Letter for Chorley Borough Council

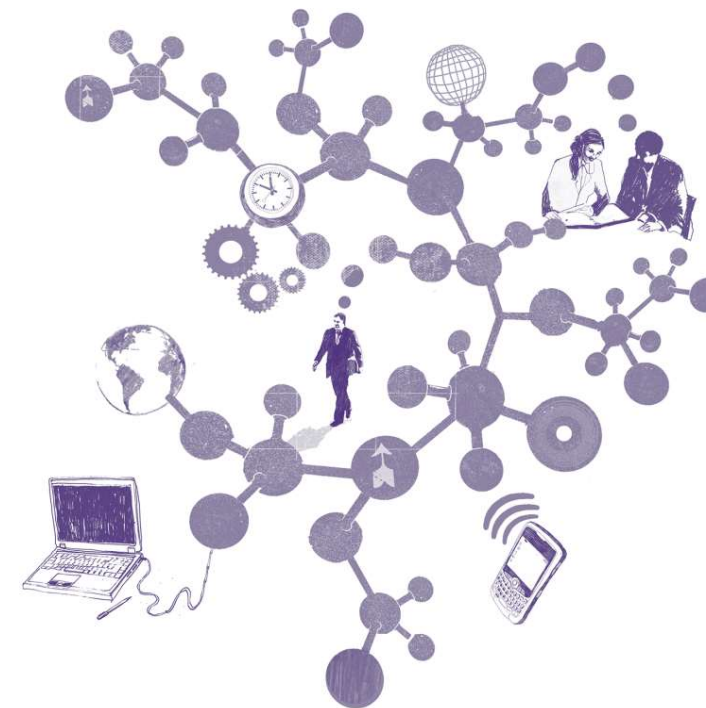
Year ended 31 March 2017

18 October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Chorley Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Governance Committee (as those charged with governance) in our Audit Findings Report on 20 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Chorley Borough Council in accordance with the requirements of the Code on 28 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Governance Committee in our Annual Certification Letter.

Other work completed

Our local government advisory team completed an independent review of the Council's income generation to provide senior officers with the latest insight on good practice to inform the development of outline business cases.

Working with the Council

During the year we have enjoyed a good working relationship with the Council. Our regular meetings with the management team have enabled us to complete an audit focussed on relevant risks. This helped inform our audit plan issued in March 2017 and enabled us to complete our focussed audit work by the statutory deadline.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.065 million, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for the identification of related parties and senior officer remuneration.

We set a lower threshold of £53,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Chief Finance Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts – Chorley Borough Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. undertook procedures to confirm the reasonableness of the actuarial assumptions made. reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>The overall conclusion is that the pension fund liability is materially correct and we found no issues to report in our Audit Findings Report presented to the Governance Committee on 20 September 2017.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements</p>	<p>We:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate. reviewed the competence, expertise and objectivity of any management experts used. reviewed the instructions issued to valuation experts and the scope of their work corresponded with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. tested revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>The overall conclusion is that the valuation of property, plant and equipment is materially correct. One issue identified is that there were some items on the asset register that were no longer operational. The assets had been fully written down in the asset register, but had not been removed at the time the item ceased to be operational. This had no impact on the valuation of PPE within the financial statements. New procedures will ensure that scrapped or obsolete items are removed from the accounting records as soon as practically possible.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

The Council authorised the accounts available for audit on 23 June 2017 and provided appropriate supporting working papers. The finance team responded as required to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Governance Committee on 20 September 2017. In addition to the key significant audit risks reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- We identified a grant of £2.404m that had been incorrectly credited to the Comprehensive Income and Expenditure Statement (CIES), even though there was no evidence provided to demonstrate that the conditions of the grant had been met. We have reminded the Council that grants should only be credited to the CIES when conditions had been met and an amendment was made to the 2016/17 statements to correct this item
- The Balance Sheet showed both a 'cash and cash equivalents' figure and a separate balance for a bank overdraft. However the overdraft is an integral part of its cash management and not a separate arrangement for borrowing. The Council amended its accounts and a recommendation was made to help ensure the accuracy of the balance in future years
- We concluded that the Council's revenue recognition policy was adequately disclosed, but could be enhanced by including reference to specific forms of income, such as council tax, business rates and grants rather than referring to 'non-exchange transactions'

- The CIPFA disclosure checklist is a key document that gives assurance to those authorising the accounts that the financial statements includes all appropriate disclosures. The disclosure checklist had not been completed prior to our audit and was only partially completed by the Council whilst we were completing our work. We have recommended that the Council completes the disclosure checklist as the financial statements are being prepared.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement (AGS) and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines. We did request a small number of amendments to both statements to further improve the disclosures made in the AGS and Narrative Report. However, our overall conclusions are that both documents were:

- prepared in line with the relevant guidance; and
- consistent with the supporting evidence provided and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We are pleased to report that we did not have to use any of our additional powers or duties at the Council and no objections were received.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial planning The medium term financial strategy is based on a number of assumptions that will result in the Council overcoming the current estimated gross cumulative budget deficit in 2019/20 of £3.333m. This includes budget contributions in savings or income of £1.350m from transformation. There is a risk that if this transformation of services does not happen then the Council's financial strategy may not be sustainable in future years.</p>	<p>We considered the arrangements for the development of the three areas of transformation in the medium term financial strategy. This included:</p> <ul style="list-style-type: none"> Looking at how the Council is developing shared services with South Ribble Borough Council Reviewing how partnership arrangements are developing with Lancashire Care Foundation Trust Gaining an understanding of the arrangements in place to ensure major capital schemes are delivered appropriately. <p>For each of the three transformation areas we will ensure that there is documentation to support the expected financial benefit to the Council.</p>	<p>It is important that the Council continues to work to ensure that the key savings and income generation schemes are achieved. A review of the Council's balance sheet shows that the Council does have almost £10.5m of general fund reserves. Over £7m of these however are earmarked whilst the Council held no short term investments as at 31 March 2017. Current liabilities totalled more than current assets by over 1.2m. The Council however does have a good track record of meeting budgets and were able to increase the general fund reserves by £924,000 in 2016/17.</p> <p>We looked at the key schemes from the Medium Term Financial Strategy (MTFS) that are to fill the budget gap, which is estimated to be £3.3m by 2019/20. For each of the items the Council provided a number of documents to support the development of each of the schemes. The documents demonstrate that there has been much planning for the schemes, including regular updates to members. Whilst detailed evidence was not provided in all cases, and the plans around shared service arrangements are still developing, there is sufficient documentation to show that there is a clear basis to support the items within the MTFS.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>
<p>Risk management arrangements The Annual Governance Statement highlighted that there was a need to embed the risk management framework at service level. At the same time the Governance Committee receives a report annually detailing the strategic risks at the Council. There is a risk that if appropriate risk management arrangements are not in place then the Council may be exposed to unmitigated risks</p>	<p>We reviewed the actions undertaken to embed the risk management framework across services and also how members are updated on risks to help inform their decision making.</p>	<p>We found that risk management frameworks are in place, and work is continuing to develop these further. The requirement for clear risk identification and management is written into the Council's policies and procedures. In addition, all corporate projects are required to maintain a risk register. Members are informed of the risk framework and activities primarily through regular reports to the Governance Committee.</p> <p>Detailed risk identification arrangements are required with service risk registers in place which are owned/maintained by the individual services. In addition, the Council is now implementing an upgraded automated corporate risk register using a new risk management system. The initial emphasis for transition to this system will be on key projects, procurement and partnerships. The Council is due to relaunch its service planning arrangements during 2017/18 using the new system. Looking ahead, the further system developments are intended to enable the Internal Audit team to move away from risk identification and management further towards a detailed testing approach to prove the effectiveness of the systems in place.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	45,255	45,255	45,255
Housing Benefit Grant Certification	6,683	Tbc	6,798
Total fees (excluding VAT)	51,938	Tbc	52,053

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our certification work is due to be completed by 30 November 2017 and our fees will be confirmed shortly after that date.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services:	
• None	0
Non-audit services	
• Income generation review	4,991

Non – audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.
- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been appropriately approved.



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12 December 2017

Dear Gary

Certification work for Chorley Borough Council for year ended 31 March 2017

We are required to certify the Housing Benefit subsidy claim submitted by Chorley Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy of £25.3 million. Further details are set out in Appendix A.

We identified only minor issues from our certification work that we wish to highlight for your attention. The issues relate to:

- a miscoding between non-HRA rent rebates and rent allowance; and
- the incorrect inclusion of an uncashed payment

As a result of the issues identified, we reported our findings to the Department of Works and Pensions (DWP). The DWP may require the Council to undertake further work or provide assurances on the issues reported in our qualification letter.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £6,683. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£25,297,732	No	0	Yes	See below for details.

Findings from certification of housing benefits subsidy claim**Misclassification between cells**

Testing of the initial sample identified one case where the benefit type had been miscoded, when adjusting for a recovered overpayment of £36.17. The adjustment was recorded as non-HRA rent rebate expenditure rather than rent allowance. As eligible rents and benefit entitlement were correctly calculated and the total subsidy claimable remained the same, no additional testing was required and no amendment was made to the claim form. We did however include the issue in our qualification letter to the DWP.

Uncashed payments

Testing of the prior year uncashed payment of £895 recorded on the claim actually related to an overpayment that did not occur. The Authority contacted the bank prior to the payment being made, but an overpayment had already been raised on the system. The system posting to remove the technical overpayment resulted in an incorrect entry being made to uncashed payments. The issue was included in the qualification letter.

Self-employed earnings

As a result of errors in 2015-16 relating to self-employed earnings in rent allowance expenditure, further testing was required on income assessment. No issues were identified from this additional testing.

Recommended actions for officers

We have no specific recommendation relating to the claim.

Appendix B: Fees for 2016/17 certification work

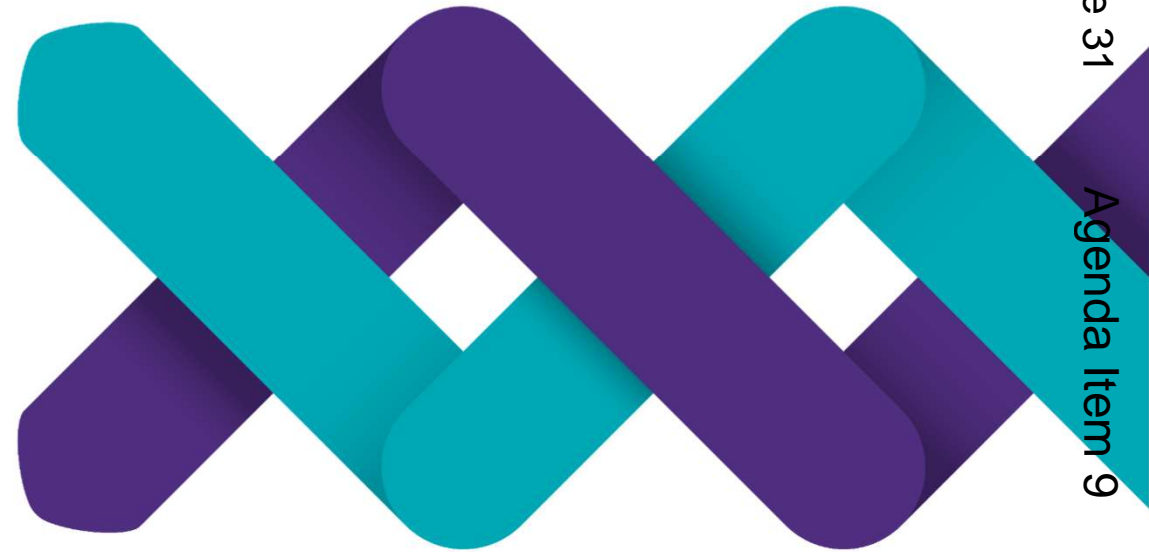
Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance between indicative fee and actual (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£8,910	£6,683	£6,683	£0	No variance between indicative fee and actual
Total	£8,910	£6,683	£6,683	£0	

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Audit Progress Report and Sector Update

Chorley Borough Council
Year ending 31 March 2018

9 January 2018



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Introduction



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This paper provides the Governance 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 Governance 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 9 January 2018

Financial Statements Audit

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

We are due to commence our interim audit in February 2018. Our interim fieldwork visit will include:

- 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

We will report any findings from the interim audit to you in our Progress Report at the March Governance Committee.

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

The final accounts audit is due to begin on 1 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 will make our initial risk assessment to determine our approach in January 2018 and report this to you in our Progress Report at the March Governance Committee

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

Progress at 9 January 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 2017/18 claim will be concluded by November 2018.

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

Meetings

We are meeting Finance Officers on a monthly basis to discuss emerging developments and to ensure the audit process is smooth and effective. We also meet regularly with your Chief Executive to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next events are:

- Chief Accountants workshops are taking place during January and February. In the north-west the dates are 23 January in Manchester, 25 January in Liverpool and 15 February in Preston
- Income Generation event taking place in our Manchester office on 8 February, which will look at:
 - New innovative approaches adopted by commercial councils
 - Market trends in commercial innovation
 - Council responsibilities to adhere to new regulations

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 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 Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	February 2018	Not yet due
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.	March 2018	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Governance 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

Meeting the deadlines

The Governance Committee requested an update on how we plan to meet the audit deadline of 31 July 2018. We recognise that bringing forward the audit deadline by two months, and the deadline for the Council to produce its accounts by one month, does pose a challenge. However by working closely together over the next few months, with regular liaison meetings and addressing issues as they arise, we fully expect that the challenges will be met.

In the following two columns we set out some of the key steps we are taking, with the help of the Council's finance team, to ensure that the audit deadline is met. We are very much reliant on the Council's officers producing a full set of financial statements and supporting notes by 31 May, along with a clear set of working papers. With the expectation that this will be achieved we have plans in place to ensure our deadline is met.

What we have done, or plan to do:

- Arranged monthly meetings with the finance team to ensure there are 'no surprises' and to discuss issues as they arise prior to the accounts production and therefore our audit
- Booked quarterly meetings with internal audit to ensure that we make the most of the good working relationship
- Complete the VfM Conclusion work by mid-April 2018, with the initial planning already underway
- Complete some early testing of transactions and balances. We will work with the Finance Team to ensure we complete any early work on the most appropriate areas
- Earlier completion of interim work, to ensure that the finance team maximise their time on closedown

- Agree a tailored list of required working papers well in advance of the year-end
- Hold weekly meetings during the audit to discuss outstanding queries and jointly monitor progress
- Meet with members of the governance committee to discuss relevant issues
- Set out at the beginning of the final accounts audit who will be completing the audit work and when that testing will be completed by
- Agree a response timeframe, to allow prompt responses to our queries

By such close working and the professional approach by both the Council's officers and the Audit team, we are confident that the audit deadline will be met.

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.

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 Governance 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 by clicking on the logos below:

Public Sector

Local
government

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

Combined Authorities: Signs of Success

In her foreword to ‘Building our Industrial Strategy’ the Prime Minister states that the initiative “will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East.”

Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the levering in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

[Click on the report cover to download and read more.](#)



Grant Thornton Publication

Consider:

Is your Authority considering how the combined authority model may evolve?



Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Grant Thornton Publication

Challenge question:

Is your Authority considering the risks and governance issues of the commercialisation agenda?



Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Authority considered the potential for an independent review of telecommunications and utility costs?

Setting up a successful social enterprise

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended.

The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted exiting models into social enterprises; for example where a greater focus on social outcomes has been identified

[Click on the report cover to download and read more](#)

Grant Thornton
An instinct for growth

Setting up a
social enterprise



Grant Thornton Publication

Challenge question:

Is your local authority looking to transition a public service to a social enterprise model, and if so are you familiar with this report?



The Board: creating and protecting value

In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

Grant Thornton's new report 'The Board: creating and protecting value' is a cross-sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance.

This powerful tool provides a framework with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

[Click on the report cover to download and read more](#)

Value creation					
Non-executives	<table border="1"> <tr> <td style="background-color: #4a4a8a; color: white; text-align: center; vertical-align: middle;">Directorship</td> <td> <p>How well do the non-executives:</p> <ul style="list-style-type: none"> design, debate and decide the organisation's future? inspire and guide the executive to realise the organisation's purpose? provide support to the executives? </td> </tr> <tr> <td style="background-color: #4a4a8a; color: white; text-align: center; vertical-align: middle;">Assurance</td> <td> <p>How well do the non-executives:</p> <ul style="list-style-type: none"> monitor financial, compliance and business indicators? ensure appropriate processes are in place to manage risk? have oversight of the executive team? </td> </tr> </table>	Directorship	<p>How well do the non-executives:</p> <ul style="list-style-type: none"> design, debate and decide the organisation's future? inspire and guide the executive to realise the organisation's purpose? provide support to the executives? 	Assurance	<p>How well do the non-executives:</p> <ul style="list-style-type: none"> monitor financial, compliance and business indicators? ensure appropriate processes are in place to manage risk? have oversight of the executive team?
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Value protection					

Source: The Board: Creating and protecting value, 2017, Grant Thornton



Grant Thornton Publication

Challenge question:

Can you use the key questions raised in the report to consider the effectiveness of your own governing body?

Code of Practice on Local Authority Accounting and IFRS 9 and IFRS 15

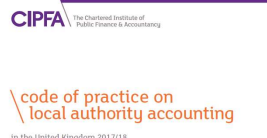
CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18 which specifies the principles and practices of accounting required to prepare a Statement of Accounts.

The main changes to the Code include:

- amendments to section 2.2 for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 to introduce key reporting principles for the Narrative Report
- updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 affecting the Housing Revenue Account, to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 relating to the Accounting and Reporting by Pension Funds, to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Alongside the Code, CIPFA has also published Guidance Notes for Practitioners and a Disclosure Checklist for 2017/18 Accounts.

These publications may be obtained from CIPFA and are available [here](#).



CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

Looking further ahead, this sets out the changes to the 2018/19 Code in respect of [IFRS 9 Financial Instruments](#) and [IFRS 15 Revenue from Contracts with Customers](#). It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 establishes a new comprehensive framework for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

An Early Guide for Local Authority Practitioners covering IFRS 9 Financial Instruments is to be published in December 2017.

CIPFA Publication

Challenge question:

Is the Finance Team aware of the changes affecting the preparation of the financial statements for 2017/18 and the forthcoming changes to financial instruments and revenue recognition.



Overview of General Data Protection Regulation (GDPR)

What is it?

GDPR is the most significant regulatory data protection development in 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 might reasonably be used to identify a living individual, either directly or indirectly. Various unique identifiers (including online cookies and IP addresses) will likely 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
- Organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify relevant incidents 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

- Privacy regulators can impose penalties of up to €1 million on public sector organisations, for the most serious violations
- Individuals and representative organisations may be able to seek compensation for infringements of data protection rights

GDPR

Challenge question:

Can your authority effectively erase Personally Identifiable Data?

Have you appointed a Data Protection Officer?

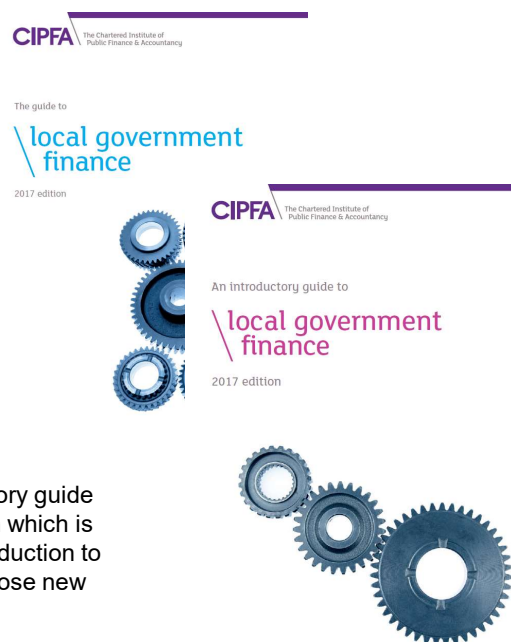
How will your authority ensure citizens' data isn't duplicated across different information siloes without their knowledge?

CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.



CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.

CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

CIPFA Publication

Challenge question:

Are these publications of use to you?



Local Authority 2016/17 Revenue Expenditure and Financing

DCLG has produced a summary of Local Authorities' 2016/17 final outturn for revenue spending and financing. It notes that local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure.

The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.6 billion for all local authorities in England in 2016-17. This was 1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. The 2016-17 financial year was the first year where local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.75 billion (2.2%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.4 billion of this increase is due to the Greater London Authority.

The full report is available [here](#).

Did you know....

This data set and many others are included in CFO Insights.

CFO Insights, is the Grant Thornton and CIPFA online analysis tool.

It gives those aspiring to improve the financial position of their organisation, instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

CFO Insights

Links

Grant Thornton website links

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

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

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

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

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>

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