

# Audit Progress Report and Sector Update

Torbay Council  
Year ending 31 March 2018

22 May 2018



# Contents

Section	Page
Introduction	3
Progress at 10 May 2018	4
Audit Deliverables	5
Sector Update	6
Links	9

# Introduction



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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

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

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

# Progress at 10 May 2018

## Financial Statements Audit

We carried out the following interim audit fieldwork in January 2018:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing.

The findings from our interim audit were reported to your March meeting.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers, which is in line with that which was achieved last year.

The final accounts audit is due to begin on the 29 May with findings reported to you in the Audit Findings Report on 25 July 2018.

## Value for Money

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

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

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

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

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

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

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

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

### Meetings

We met with Finance Officers in March as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Head of Finance and Monitoring Officer in May 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 most recent event was our local government accounts workshop on 6 February in Plymouth. 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
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017/18 financial statements.	March 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

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# Sector Update

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

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

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

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

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

# Financial sustainability of local authorities 2018

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

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

The NAO's view is that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the 2014 review. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.

Key findings include:

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

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

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

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

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

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

**49.1%**

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

**28.6%**

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

**1**

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



# CIPFA publication - Treasury Management Code

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

The Code defines treasury management as follows:

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

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

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

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

.The Code is available in hard copy and online.





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# Links

## Grant Thornton website links

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

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

## CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2017-edition-online>

## National Audit Office link

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>



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