

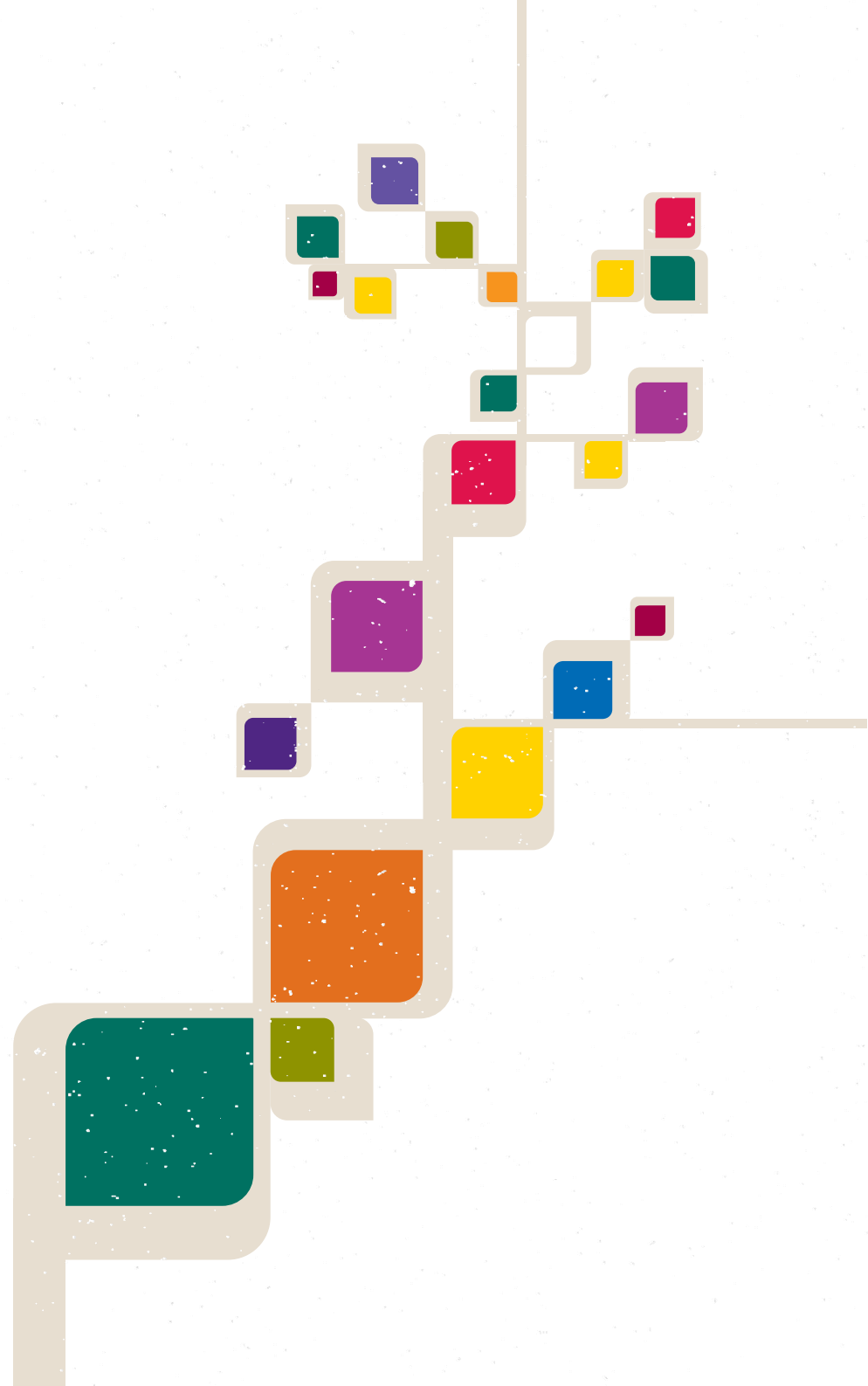
Audit Committee
Mid Devon District Council
Progress Report and Update
Year ended 31 March 2016

27 November 2016

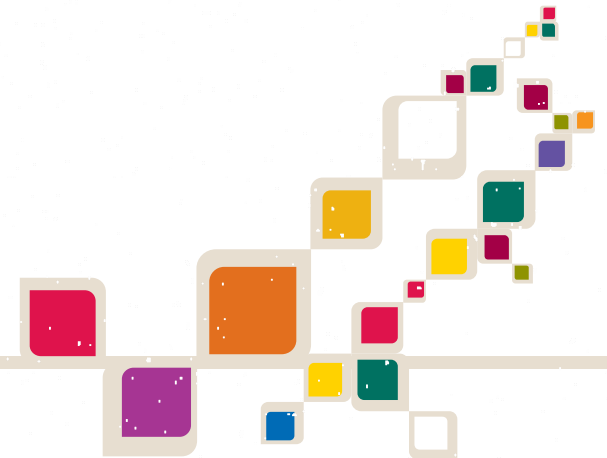
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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



Introduction

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

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our recent publications detailed in this report and our past publications, for example:

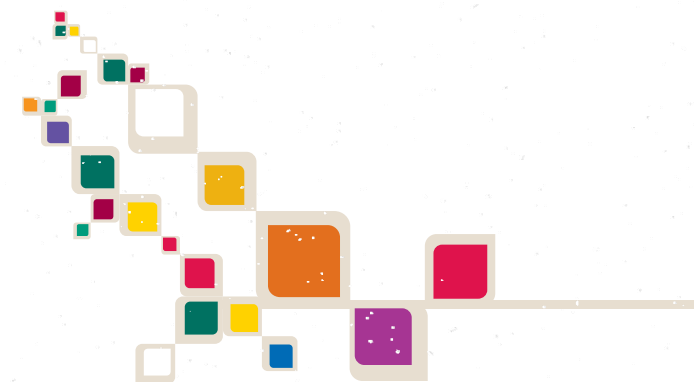
- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/
- Re-forging local government: Summary findings of financial health checks and governance reviews (December 2015) <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>,
- Advancing closure: Transforming the financial reporting of local authority accounts (August 2016) <http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

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

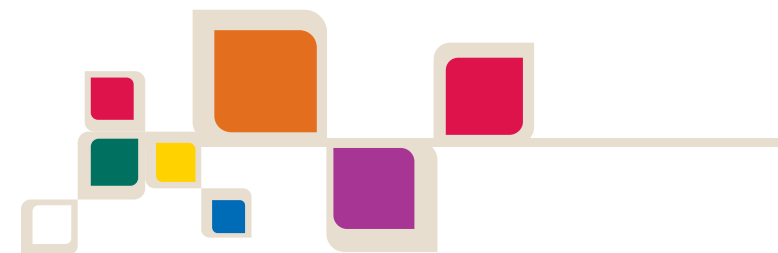
Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

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

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.

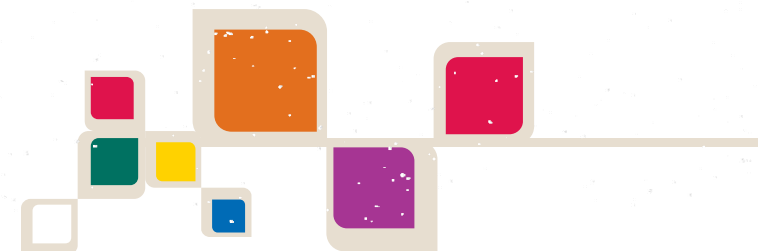


Progress at October 2016



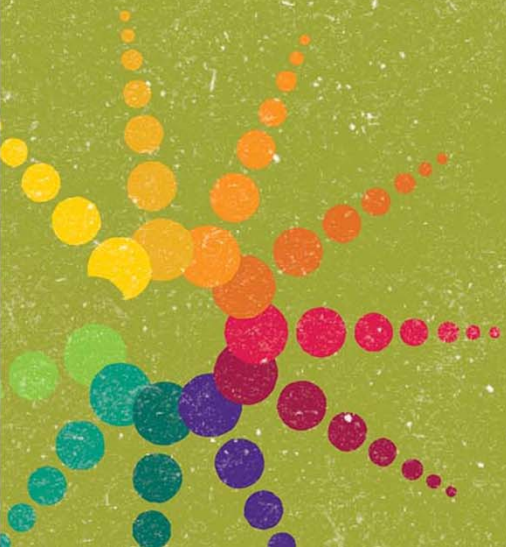
2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016 and considered by the May 2016 committee.
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.</p>	March 2017	No	Not yet started
<p>Interim accounts audit Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • 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 • Value for Money conclusion risk assessment. 	February 2017	No	Not yet started
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 	June 2017	No	Not yet started

Progress at October 2016



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	March and June 2017	No	Not yet started.
<p>Other areas of work</p> <p>Meetings with Members, Officers and others</p>	On-going	No	Not yet started

Grant Thornton Sector Issues



Emerging issues

In previous Audit Committee updates we have set out emerging sector issues and our thoughts and responses to these. These issues are summarised below with links to where further information can be found:

Brexit - The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which explores how we can build a vibrant economy. You can find out more here: <http://vibranteconomy.co.uk/>. As further developments take place, we will be providing insight and analysis which you can find on our website at <http://www.grantthornton.co.uk/brexit>.

Financial sustainability of local authorities: capital expenditure and resourcing According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases. The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

The full report is available at <https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

The changing face of Corporate Reporting Integrated Reporting, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors. By moving the focus away from only short-term, backward looking, financial reporting, Integrated Reporting encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context. The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt Integrated Reporting, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this. Further information is available at <http://intergratedreporting.org/>

Introduction

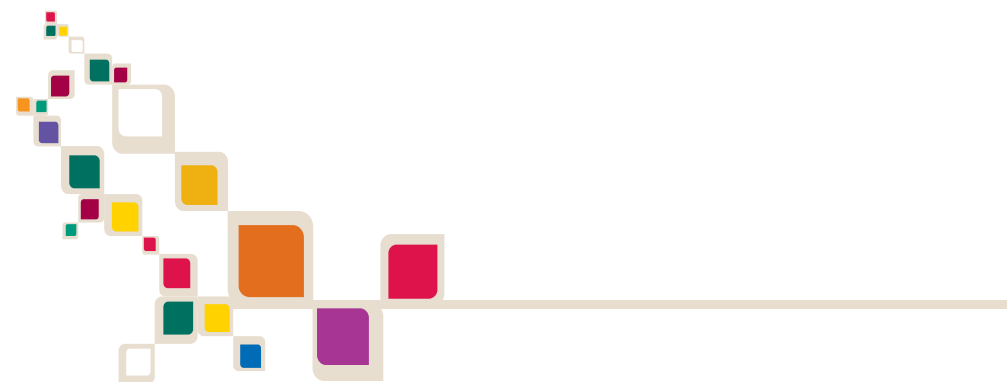
On 31st January 2014 the Local Audit and Accountability Act (LAAA) 2014 came into force. This act abolished the Audit Commission and for the first time allows Local Authorities to appoint their own auditors.

This is a significant change for many organisations. High quality external audit is one of the cornerstones of public accountability and plays an important part in the strategic, operational and financial delivery of Local Government. Done well the role can bring significant benefits.

What does this mean for your organisation?

This change means that for the 2018/19 financial year you will take on the authority to appoint your own external auditor. This will be the first time you will have the opportunity to make this appointment.

External auditors need to be in place by 31 December 2017 for the audit of the 2018/19 financial year. We would encourage organisations to begin their planning early, as there are a number of possible options to consider.



Three options are available....

Audit Procurement Options ...

The legislation sets out three possible options for you to consider:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for instance;
- join a 'sector led body' arrangement where specified appointing person status has been achieved under the regulations.

Setting up an Auditor Panel

Options 1 and 2 above require you to set up an auditor panel to advise on the selection and appointment of an external auditor. Guidance to assist you with this task has been issued by CIPFA at - <http://www.cipfa.org/policy-and-guidance/publications/guide-to-auditor-panels-pdf>.

Using a Sector Led Body

Option 3 - Public Sector Audit Appointments (PSAA) have been specified by the Secretary of State for Communities and Local Government as a person eligible to appoint external auditors in the sector. They are currently gathering support for a sector led body to make the majority of these appointments.

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Which option should we choose?

There are possible advantages and disadvantages to each option but these are likely to vary according to the type of authority and your size, geographic location etc.

Can we choose any auditor?

Under the LAAA 2014 audit firms carrying out audits of Local Government bodies have to be licensed and registered to carry out external audit services with the Institute for Chartered Accountants in England and Wales. The list can be found here..

<http://www.icaew.com/en/technical/audit-and-assurance/local-public-audit-in-england/local-auditor-register>

As the largest supplier of external audit services to Local Government bodies Grant Thornton have already completed this process and has 35 registered engagement leads across the country.

Timing and length of appointment

Auditors must be in place by 31 December 2017. The appointment can be for longer than a year but there must be a new appointment process at least once every 5 years.

Preparing for tendering

Challenge question:

Have you decided which option you want to follow?

Procurement Options – What and How

What are you procuring?

The work of your external auditors is governed by the National Audit Office's Code of Audit Practice. There is no expected change to the NAO's Code which requires external auditors :

- to be satisfied that the accounts present a true and fair view, and comply with any legislative requirements that apply to them
- to ensure that proper practices have been observed in the preparation of the accounts and
- to ensure that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their work by expressing an opinion on the financial statements and by forming a conclusion on the authority's arrangements for achieving value for money.

In addition auditors have additional powers under the Act such as responding to objections from members of the public in relation to the accounts.

Procurement Options

There are a number of procurement options open to you at this time. We have set out the main options below. In considering each option you will need to ensure that you comply with the Public Contracting Regulations (PCR) 2015 and take into account EU Procurement rules.

EU Procurement rules require authorities to advertise in OJEU where the estimated total contract value (over the duration of the contract) exceeds £172,514 for other public bodies and £111,676 for schedule 1 entities. Contracts for external audit services tend to exceed the OJEU threshold.

Option 1

Restricted procedure under the Public Contracts Regulations 2015. This is a two stage tender process : at the first stage, bidders complete a pre-questionnaire (PQQ) which is used to assess an organisation's commercial, technical and financial capabilities and provides a method of shortlisting interested parties who meet the minimum qualification criteria. This assessment does not consider how the bidders will meet the tender requirements.

The authority will have to comply with strict procurement timescales allowing bidders 30 days to express an interest and another 30 days for submission of tenders.

Preparing for tendering

Challenge question:

Have you chosen a procurement route?

Procurement options

Option 2 – using an Open Procedure

This is a one-stage procedure, where bidders complete all tender documents (PQQ and tender response) at the same time. The authority evaluate the bids and then evaluates the PQQ part of the submission. The disadvantage of this approach is that the authority may be inundated with large numbers of tenders and will be required to evaluate all bidders.

Existing frameworks

There are a number of well established frameworks across the public sector which cover the procurement of external audit services. Frameworks are valuable in that they are already EU/UK compliant and terms and conditions are pre-agreed, removing much of the burden for you in assessing suppliers and in shortening the process for appointment.

Whilst all frameworks allow for further competition, a number do allow call-off without competition, otherwise frequently referred to as direct award. This reduces administrative costs and the time taken for appointment.

This is applicable to two such frameworks, RM1502/ConsultancyONE as hosted by Crown Commercial Service, and Framework 664/Consultancy Services as hosted by ESPO.

Equally, there is an option for a mini-competition of suppliers under these and other frameworks. If you choose a mini-competition, it is useful to note that not all suppliers are on every framework.

Combined procurement – PSAA

Public Sector Audit Appointments have led the development of a national combined procurement option. This would strengthen your purchasing power but would potentially diminish your autonomy over the process.

Direct appointment

If the contract is below the PCR 2015 levels you can make a direct appointment of an auditor. You will need to ensure that you comply with the 'below threshold' contract rules.

As with a direct appointment under a framework this reduces administrative costs and the time taken for appointment.

Next steps

We recognise that appointing your external auditor is a significant decision. We would be pleased to discuss with you the different options available to you.

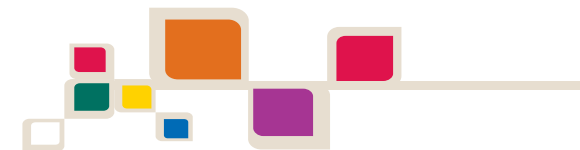
Preparing for tendering

Challenge question:

Have you chosen a procurement route?

Grant Thornton Technical update





Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the new measurement requirements at depreciated replacement cost for the Highways Network Asset (HNA) and
- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

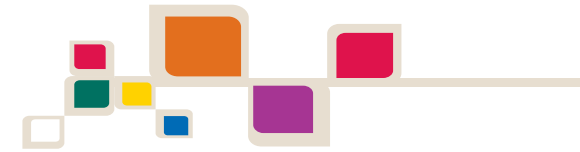
In respect of HNA, the Accounting Code requires local authorities to comply with the CIPFA Code of Practice on Transport Infrastructure Assets issued in 2013. The Transport Infrastructure Code is currently being revised and will be reissued as the Highways Network Asset Code (HNA Code) over the summer of 2016. Whilst no major changes are expected to the basis of the accounting set out in the previous Code of Practice on Transport Infrastructure Assets, the detailed accounting requirements will not be finalised until the updated HNA Code is formally issued.

The key challenge for local authorities is around the accuracy and completeness of supporting records for HNA inventory and condition at 1 April 2016 and effective arrangements for recording expenditure and other movements on HNA from that date.

Challenge questions:

- Are you and officers aware of the changes to the 2016/17 Code and assessed the potential impact?
- What are you and officers doing to obtain assurance over the completeness and accuracy of supporting records for HNA?
- Have you a project plan in place to achieve this?

This is an area where we will be working closely with officers over the coming months to identify areas of potential early work. We will also be providing regular client briefings on HNA which expands on the Code requirements.



Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate on going revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Challenge questions:

- Are you and officers aware of this new direction?

Annual Governance Statement

What are the requirements?

Regulation 6(1) of the Accounts and Audit Regulations 2015 require authority's to review at least once a year the effectiveness of its internal control systems and that the findings of this review must be considered by the Authority meeting as a whole or by a committee.

The regulations require that the Authority or nominated committee must approve an Annual Governance Statement prepared in accordance with proper practices. CIPFA's updated guidance "*Delivering Good Governance in Local Government: Framework 2016 edition*" is considered in the CIPFA Code of Practice on Local Authority Accounting to represent proper practices for an Annual Governance Statement (AGS) to be produced.

The AGS should accompany the accounts, but does not need to be included within them and can be published separately.

What is the purpose of the AGS?

CIPFA's guidance requires the Authority to report publicly on the extent to which it complies with its own code of governance on an annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the AGS should itself add value to the effectiveness of the Authority's corporate governance and internal control framework.

The AGS should provide a brief communication regarding the review of governance that has taken place and the role of the governance structures involved. It should be high level, strategic and written in an open and readable style. It should be focused on outcomes and value for money and provide clear links to the Authority's vision and strategic objectives.

Auditors' responsibilities

Auditors are required to conclude whether the AGS has been presented in accordance with proper practices and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware.

In doing so, auditors take into account the knowledge of the Authority gained through their work in relation to the annual accounts and through their work in relation to the Authority's value for money arrangements.

Key challenge questions

1. Is the content of the AGS consistent with your knowledge of the operations of the Authority over the year?
 - Do you recognise what is said?
 - Does it focus on the those issues of greatest significance to achieving the Authority's vision and strategic objectives?
 - Does it recognise the significant risks that you were aware of during the year?
2. Does the AGS succinctly describe the control environment in an understandable way?
3. Does it provide an open and balanced assessment of the effectiveness of its control environment?
 - Are the Authority's conclusions from its assessment clear? Does this mean that the arrangements are good or need improvement?
 - What else have you seen during the year?
 - Is it consistent with the findings of internal audit, external audit and external regulators?
4. Is the AGS clear about what further actions need to be taken to address the identified issues?



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Additional references

What should be included in the AGS?

- a) An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- b) A reference to and assessment of the effectiveness of key elements of the governance framework, including group activities where the activities are significant, and the role of those responsible for the development and maintenance of the governance environment such as the authority, the executive, the audit committee and others as appropriate.
- c) An opinion on the level of assurance that the authority's governance arrangements can provide.
- d) An agreed action plan.
- e) A conclusion.

Source: Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, CIPFA (2016)

Your Engagement Lead presented the changes at the DAP/ SWAP event in Somerset on 25th October, which you attended.

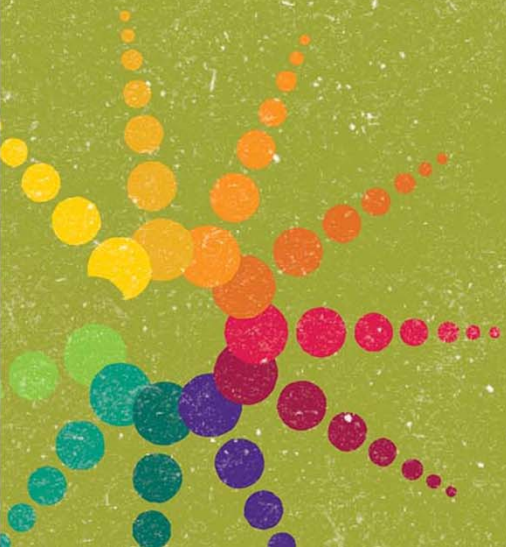
Seven principles of good governance

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Source: Delivering Good Governance in Local Government: Framework 2016 edition, CIPFA/SOLACE (2016)



Grant Thornton Publications and events



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;

- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
- Efficient and effective systems and processes are essential
- Auditors and other external parties need to be on board and kept informed throughout

On 19 October 2016, Grant Thornton ran a free seminar for Local Authorities on the practicalities of early closure at which your financial accountant, Andrew Cawdren, and your Engagement Lead, Geraldine Daly, co-presented a session on the successful early completion of the Mid Devon DC and the issuing of one of the earliest opinions for the 2015/16 financial statements.

Grant Thornton reports

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Advancing closure
Transforming the financial reporting of
local authority accounts



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

6th December 2016

Grant Thornton reports

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ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

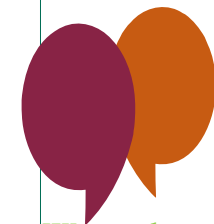
Better together
Building a successful
joint venture company



CFO Insights – driving performance improvement

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

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



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

Future events and workshops

Joint Venture seminar on 6th December 2016

Following publication of our 'Better Together' report we are running a workshop in Taunton Deane. The session will include presentations from the practitioners interviewed in preparing our report, including Arthur Hooper, Managing Director of Cormac

The event will provide an invaluable insight into setting up and running joint venture companies

For further information or to book your place, please contact your Audit Manager or Lynsey Searle T +44 (0)117 305 7930

lynsey.searle@uk.gt.com

Mental Health Collaboration Summit on 1st December 2016

Following on from our 'joining the dots, not picking up the pieces' publication on collaborative working in Mental Health we are running our first Mental Health Collaboration summit in the Southwest. This summit provides an opportunity for sharing good practice and innovative partnership approaches that are being developed between health, police, social care and voluntary sectors. This summit offers the opportunity to gain and insight into the Southwest environment.

For further information or to book your place, please contact your Audit Manager or Michelle Weeks T +44 (0)117 305 7830

michelle.s.weeks@uk.gt.com

Sustainability and Transformation Plans – Early learning 13th December 2016

This round table event will consider early progress in delivering this approach to joined up health provision. Our event will consider:

- how best to ensure sufficient capacity and leadership is made available to inform the STP
- methods to ensure full consultation, engagement and buy-in by all partners and stakeholders
- the importance of accurate and consistent information to inform decisions
- early wins in terms of new ways of service provision

For further information or to book your place, please contact your Audit Manager or Moira Browne T +44 (0)117 305 7689

moira.b.browne@uk.gt.com

Grant Thornton events





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