

Governance and Audit Committee Update for Kent County Council

Year ended 31 March 2014

July 2014

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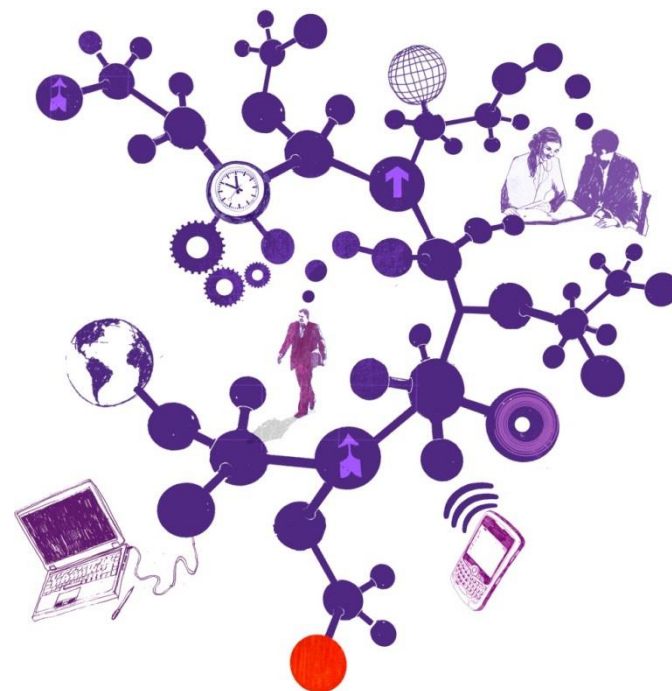
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Introduction

This paper provides the Governance and 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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance and 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths

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 Audit Manager.

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Progress at 4 July 2014

Work	Planned date	Complete?	Comments
2013-14 Audit Fee Letter We prepare a fee letter annually setting out the audit and grants certification work fee for the year.	March 2013	Yes	We issued the 2013/14 audit fee letter to management on 22 March 2013 and presented it to this committee in April 2013.
2013-14 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 2013-14 financial statements.	April 2014	Yes	We have agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts with officers. The plans were presented to the committee in April.
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January and April 2014	Yes	<p>The results of the interim work completed up to February are set out in our accounts audit plans.</p> <p>We have undertaken early substantive testing to reduce the pressure on officers and audit at the accounts visit.</p> <p>We have monthly meetings with Internal Audit to discuss potential audit issues and fraud investigations. There are no issues arising that would impact on our audit opinion at this date.</p>

Progress at 4 July 2014

Work	Planned date	Complete?	Comments
2013-14 final accounts audit <ul style="list-style-type: none"> • audit of the 2013-14 financial statements; and • proposed opinion on the Council's accounts. 	June – July 2014	No	<p>We had monthly meetings with the Head of Financial Management and Chief Accountant during the year.</p> <p>We received the draft accounts on 13 June 2014 and are currently undertaking the audit work.</p> <p>We will present the Audit Findings Report to you at the July committee meeting.</p>
Value for Money (VfM) conclusion The scope of our work to inform the 2013-14 VfM conclusion is based on the reporting criteria specified by the Audit Commission. The Council has proper arrangements in place for: <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources. Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.	January – June 2014	No	<p>We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan.</p> <p>The detailed VfM work, including the financial resilience review, will be completed in June 2014.</p>
Whole of Government Accounts (WGA) We are required to audit the Whole of Government Accounts return on behalf of the National Audit Office.	September 2014	No	<p>The local authority unaudited deadline has moved to 30 June. Our deadline for completing the audit is the end of September. We will undertake the audit of the WGA return once the accounts audit is complete.</p>

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VFM Profiles

Using data from the VFM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

Challenge questions

Has the Council used the Audit Commission briefing paper to consider how their:

- overall spending on household waste management has changed over time?
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time?;
- spending on different components of waste management compares with authorities that have similar or better performance?

Consultation – Local Government Pension Scheme future structure

Local government guidance

Local Government Pension Scheme (LGPS) reform

The DCLG (1 May 2014) published a summary of its 2013 call for evidence on the future structure of the local government pension scheme, along with its own conclusions and has launched a formal consultation on these. Consultation responses are required by 11 July 2014. <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

Having considered a cost/benefit analysis of mergers from actuarial firm Hymans Robertson, the DCLG said it would not force funds to merge, but is instead consulting on the following proposals:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

The potential proposed changes, whilst not as radical as the previously considered merger proposals, remain nonetheless significant for the management of pension funds. DCLG believe the implementation of the proposed changes would significantly reduce investment costs across the LGPS nationally.

Priority School Building Programme

Local government guidance

The Schools minister David Laws announced (2 May 2014) that the government will spend £2bn on a second phase of its Priority School Building Programme in the six years from 2015.

Under the Priority School Building Programme, which replaced the last government's Building Schools for the Future scheme, the government has announced its commitment to spending £18bn on school buildings over the course of this parliament, including £2.4bn targeted at the schools in worst condition. Overall, this funding is set to build around 300 new schools and provide improvements to nearly 600 others.

In announcing this targeted initiative was on course to improve 261 schools with buildings in the worst condition in England by the end of 2017 and that it would now be extended into a second phase, with a further £2bn allocation over the next spending review period to 2021 the minister stated:

"the original Priority School Building Programme worked on the basis of the condition of the whole school site. We will now refine this to look at targeting individual school buildings, as well as whole school rebuilds where this is appropriate, so that the department can focus much more tightly on addressing specific issues in the estate."

Challenge question

Has the authority considered the implications of the Priority School Building Programme for its schools building and refurbishment programme?

Assessing the costs and benefits of local partnerships

Local government guidance

The government published its cost benefit analysis guidance for local partnerships on 2 April 2014.

Developed as part of the Greater Manchester 'whole place' Community Budget pilot, it was the first Treasury-approved assessment of the costs and benefits of joining-up and reforming public services in local areas.

The framework was developed by New Economy, the economic strategy unit of the Greater Manchester Combined Authority. John Holden, acting director of economic strategy at the agency, led the team that devised the methodology. He said

"this model provides a framework to start thinking about more holistic projects that deliver long-term outcomes but also produce short-term cashability [savings]"

The guidance sets out a standard process to determine the benefit of reforms, based on the unit cost of services, their impact and the savings that result. In providing Treasury backing for the cost benefit analysis framework – it has been included in Whitehall's Green Book for policy appraisal and evaluation – it has been added to the government's assessment process for the latest £320m round of the Transformation Challenge Award, which provides funding to councils to implement reforms.

Challenge question

Has the authority considered the applicability of the government's cost benefit analysis guidance in considering the cost-benefits of local service delivery options?

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Challenge questions

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Has the Authority reviewed these case studies and assessed whether it is meeting good practice in these areas?
- Our report includes key questions for members to ask officers on risk management and alternative delivery models. Are these issues being considered and responded to by officers?



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