

Audit and Performance Review Committee Update Devon and Somerset Fire & Rescue Authority

Year ended 31 March 2017

April 2017

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Introduction

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

Members of the Audit and Performance Review Committee can find further useful material on our website www.grantthornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

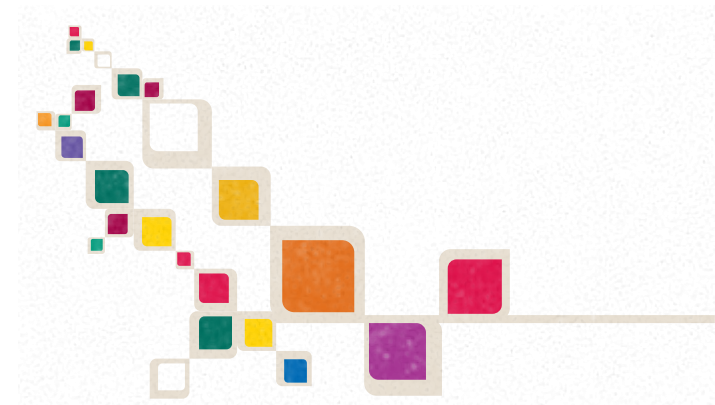
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>
- Link to our webinar on the implications of article 50
<http://www.grantthornton.co.uk/en/insights/article-50--what-happened-and-what-does-it-mean/>

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.

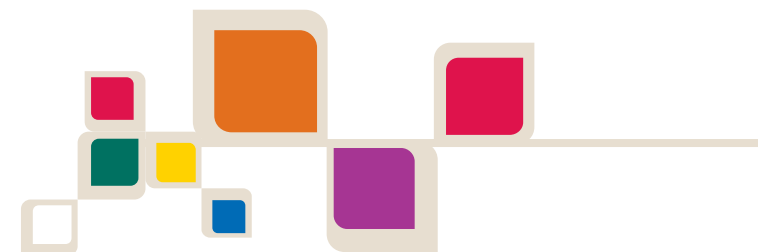
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

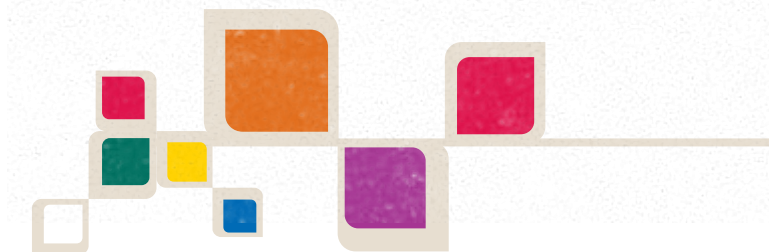


Progress to date



2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.</p>	April 2016	Yes	<p>The 2016/17 fee letter was issued in April 2016.</p> <p>The 2016/17 work programme and fees is accessible from the Public Sector Audit Appointments (PSAA) website www.psaa.co.uk.</p> <p>Our fee letter set out the scope of our 2016/17 work and included an outline timetable</p>
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Authority setting out our proposed approach in order to give an opinion on the Authority's 2016/17 financial statements.</p>	April 2017	Yes	<p>The Audit Plan is included on the agenda of this APRC meeting.</p>
<p>Interim accounts audit</p> <p>Our interim fieldwork visits include:</p> <ul style="list-style-type: none"> • updating our review of the Fire Authority's 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 – February 2017	Yes	<p>The results of the interim audit are reported in the Audit Plan, which is a separate item on the agenda of this meeting.</p>
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Fire Authority'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 	July – September 2017	Not started	<p>We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. The final accounts audit is scheduled to start on 3 July 2017.</p>

Progress to date



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	January – July 2017	In progress	The results of our initial risk assessment are reported in our audit plan which is included as a separate item on the agenda of this meeting.
<p>Annual Audit Letter</p> <p>We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.</p>	October 2017	Not yet due	
<p>Other activities</p> <ul style="list-style-type: none"> • We held Faster Close workshops in Bristol and Exeter during October 2016. The workshops were aimed at local authority practitioners and considered the main factors for authorities to consider in accelerating their financial reporting procedures to produce their year-end accounts. The Exeter workshop on 19 October was attended by members of the Authority's Finance team. • We are holding our own local government accounts workshops in 2016/17. Local events were held in Plymouth on 28 February and in Bristol on 1 March. Members of the Authority's finance team attended the workshop in Plymouth. 			

Fire Sector Accounting and other issues



Policing and Crime Bill receives Royal Assent

The government marked a major milestone in its police reform agenda on Tuesday, 31 January as the Policing and Crime Bill received Royal Assent. The [Policing and Crime Act 2017](#) will enhance the democratic accountability of police forces and fire and rescue services, improve the efficiency and effectiveness of emergency services through closer collaboration, and build public confidence in policing.

The act includes a number of provisions, including the placing of a new duty on police, fire and rescue and emergency ambulance services to collaborate where it is in the interests of their efficiency or effectiveness and enable police and crime commissioners (PCCs) to take on responsibility for the governance of fire and rescue services, where a local case is made.

Minister for Policing and the Fire Service, Brandon Lewis, said:

Police reform is working, and crimes traditionally measured by the survey have fallen by a third since 2010 to a record low. I am delighted this act has now received Royal Assent and, in close collaboration with police and fire stakeholders, we will work hard to implement the act's provisions to further improve the effectiveness and accountability of our emergency services.

Technical Matters



Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

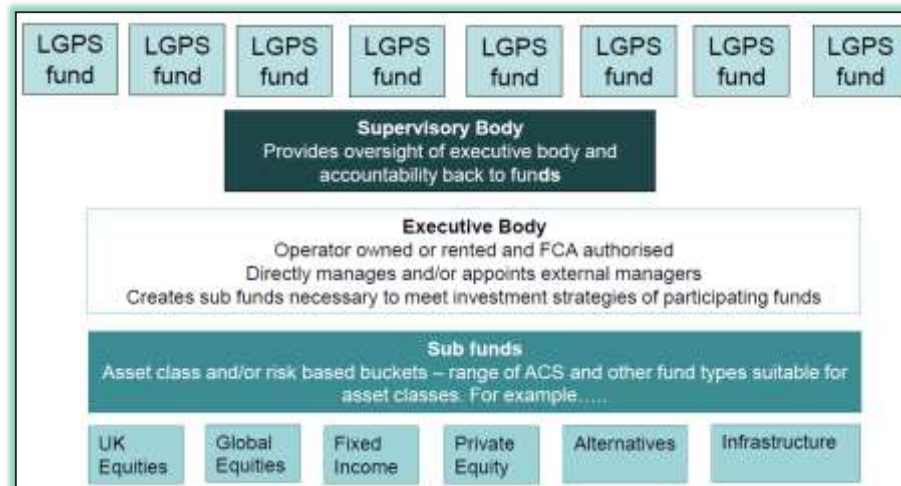
There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article [Clear pools: the future of the LGPS](http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps) highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

National developments



Link:
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



typical structure of LGPS Pool

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Apprentice Levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: $250 \times £20,000 = £5,000,000$

Levy sum: $0.5\% \times = £25,000$

Allowance: $£25,000 - £15,000 = £10,000$ annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working and salary sacrifice in the public sector

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

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Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications



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