

This supporting information has been prepared to assist the auditor in performing the risk assessment to inform their work on the conclusion on value for money (VFM) arrangements under Auditor Guidance Note 3 (AGN 03). The supporting information is intended to provide additional sector specific context only. It is **NOT** part of the statutory guidance and auditors are only required to have regard to the explicit requirements set out in AGN 03. This document should be read in conjunction with supporting information: general arrangements.

# Auditor Guidance Note 3 (AGN 03)

## Supporting information:

### Local Authorities

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## Background

This section provides some general information about the sector.

The term “local authority” (LA) covers a wide-range of local bodies with varying roles and responsibilities, depending on both their legal status and individual local arrangements each body might have made. Generally speaking, each location in England is the responsibility of either a “single-tier” LA or has a “two tier” LA structure where responsibilities are shared between a county council and a district council.

Single-tier LAs include the 56 unitary authorities, 36 Metropolitan boroughs and 33 London boroughs. In “two tier” areas there are 27 county councils and 201 district councils.

In some parts of the country, strategic or combined authorities have been established to carry out certain functions in an area. For example, the Greater London Authority is responsible for some London wide strategic functions. In other parts of the country combined authorities have been, or are being, established to carry out specified functions on behalf of two or more local authorities. There is separate supporting information on other local bodies, including [combined authorities](#) and [fire and rescue authorities](#). In some parts of the country smaller local bodies such as parish councils carry out some local government functions; these are out of scope for AGN 03 and therefore are not included in this supporting information. Where parish councils have opted to produce accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting and undergo a full audit, however, AGN 03 applies.

## Financial position

LAs are funded by grants from central government and locally raised revenues; either through taxation (council tax and business rates) or from fees, charges, or other revenue generating activities. Since 2010-11 LAs have seen their funding from central government reduced by [37 per cent in real terms](#), and further reductions for the period 2016-17 to 2019-20 are likely.

Central government has also changed the way it funds LAs. Until 2013-14 all business rates income was paid to central government and redistributed to LAs via a needs-based formula. Under the [Localism Act 2011](#), and the [business rates retention](#) scheme introduced in April 2013, LAs are now able to retain a share of locally raised business rates.

In this landscape, those LAs that are relatively more reliant on central government funding and are less able to increase locally raised revenues may need to make greater efficiency savings or draw on reserves in order to set a balanced budget. Where LAs are unable to raise revenues sufficient to meet their planned commitments, and do not have sufficient reserves to meet any shortfall, budgets will need to be reduced further which may carry a risk of service failure. LAs with insufficient funding may be unable to discharge all of their statutory duties adequately. The impact would depend on the nature of the statutory duty; these range from administrative duties to responsibilities for safeguarding children and vulnerable adults.

The next spending review is due to take place on 25 November 2015, where it is possible that announcements may have a significant impact on the body's medium term financial plan or on the financial planning of partners and third parties.

## Legal framework for body

**This section sets out the legislation that governs the audited body's sector, together with any statutory guidance issued thereunder. It is included to provide auditors with information about the roles and responsibilities of the audited body as set out in law.**

The framework of authorities for LAs is complex and there is a large body of primary and secondary legislation that relates to LA functions. In June 2011 the government (in consultation with LAs) produced an [inventory](#) of legislation relevant to LAs.

The [Localism Act 2011](#) set out a new legal framework for local authorities. Section 1 of that legislation confers on local authorities the "*power to do anything that individuals generally may do*". This legislation provided more freedom for local authorities to carry out their own function consistent with statutory obligations.

[The Cities and Local Government Devolution Bill 2015-16](#) would make various amendments to the 2009 Act including removing the geographical restrictions, enabling the transfer of functions

from other bodies to support devolution deals and would enable combined authorities to create directly-elected mayors.

Bodies need to have proper arrangements in place for complying with relevant legislation, and be aware of new legislation that may affect their functions or responsibilities (such as the [Cities and Local Government Devolution Bill 2015–16](#) currently being debated in Parliament). While it is a matter for auditor judgement, non-compliance with legislation identified by the auditor (or other inspectorates or review agencies), can have implications for the conclusion on arrangements to secure VFM, depending on the nature and severity of the issue.

## Sector developments

**This section sets out some of the current developments within the sector which may be of interest to auditors when completing their risk assessment. It is neither prescriptive nor exhaustive, and should not be used as a checklist. It does not cover developments at individual audited bodies and auditors are likely to need to draw on their own local knowledge.**

AGN 03 describes what “proper arrangements” comprise for the purposes of the work under the Code, and the sector developments have been grouped according to sub-criteria set out in the AGN. The AGN states “*Auditors are not required to consider all illustrative significant risks set out... [and] should consider the illustrative significant risks insofar as they are consistent with their understanding of the audited body*”. Similarly, the sector-level developments are only intended to be considered where the auditor deems them relevant. And as the AGN further states, “*where other matters come to the auditor’s attention which - in the auditor’s judgement - are relevant to the discharge of their duties in respect of VFM arrangements under the Code, their impact on the risk assessment should be considered, irrespective of whether or not the issue is explicitly referenced within the scope of proper arrangements*”. Therefore the auditor is ultimately responsible for preparing and documenting a risk assessment that mitigates the engagement risk.

### Informed decision making

The following section contains contextual information that may be relevant to the body’s governance and decision making arrangements. The material may be helpful to auditors when undertaking their risk assessment.

- The Localism Act 2011 began the move towards greater devolution of powers to local areas. The government and leaders of the Greater Manchester Combined Authority signed a devolution agreement in November 2014. The devolution of powers is still being negotiated, although it is expected that some accountability currently held by ministers will transfer to a directly elected Mayor. The government signed a second devolution agreement with Cornwall in March 2015. All other areas of England were invited to submit devolution proposals by 4 September 2015 and the government is currently considering these.

- Care Quality Commission (CQC), the independent regulator for health and social care in England, has launched a new programme of inspections across all of England's adult social care services, giving a rating according to whether they are safe, effective, caring, responsive and well led. A number of reports have recently been published for services across the North and in London. Ofsted (the Office for Standards in Education, Children's Services and Skills) is the regulator of services that care for children and young people. It inspects and produces reports on LAs with regard to their statutory duties in this area. HM Inspectorate of Probation inspects various institutions in the probation landscape, including youth offending services. Some of its reports are relevant to LAs with regard to their statutory duties in this area.

## Sustainable resource deployment

The following section contains contextual information that may be relevant to the body's arrangements for financial planning and resource deployment. The material may be helpful to auditors when undertaking their risk assessment.

- The government has announced its intention to increase statutory minimum pay ([National Living Wage](#)) and employer national insurance contributions ([end of contracting-out on introduction of new State Pension](#)) from April 2016. These changes are likely to affect the staffing costs of LAs and may have implications for medium term financial planning.
- In [November 2014](#), the Employment Appeals Tribunal (EAT) held that Article 7 of the Working Time Directive is to be interpreted such that payments for overtime are part of normal remuneration and to be included as such in the calculation of pay for holiday leave taken under regulation 13 of the Working Time Regulations 1998. This judgment has a bearing on organisations that offer significant overtime.
- There has been an increase in the number of business rate appeals submitted to the Valuation Office Agency. This has led to increased uncertainty about the level of business rate income at some local authorities, which could affect the medium term financial planning assumptions made by the local authority.
- In the July 2015 budget, the government announced its plans to reduce rents in social housing in England by 1 per cent a year for 4 years, requiring Housing Associations and LAs to deliver efficiency savings. This could have a significant impact on councils' 30 year Housing Business Plan. Authorities may need to review plans for future investment in housing, and revisit their medium term financial plans.

## Working with partners and other third parties

The following section contains contextual information that may be relevant to the body's arrangements for working with partners and other third parties. It may be helpful to auditors when undertaking their risk assessment. Accountability for services cannot be transferred to third parties, and the body's arrangements to monitor the performance and delivery of services and take action where standards fall need to be appropriate to the method of delivery.

- LAs that either directly own social housing, or have transferred their social housing to another provider, remain accountable for that housing. The Homes and Communities Agency as the regulator of social housing publishes [regulatory judgements](#), where provision has been found to be non-compliant. Regulatory judgements could be a helpful information source for auditors when undertaking their risk assessment.
- LAs work with private enterprise in their area to promote economic growth through Local Enterprise Partnerships (LEPs). There are 39 LEPs in England and each one is responsible for managing one of the agreed [Growth Deals](#). The arrangements in place between LAs and their strategic partners to manage and monitor local growth may be helpful in informing the auditor's risk assessment.
- The government introduced the [Better Care Fund](#) initiative to provide support for LAs and local health bodies to jointly plan and deliver local services. This fund will allocate £3.8 billion to local areas in 2015/16 according to a formula and subject to conditions. NHS England is required to ring-fence £3.46 billion within its overall allocation to Clinical Commissioning Groups. The remainder of the £3.8 billion fund will be made up of the £134 million Social Care Capital Grant and the £220 million Disabled Facilities Grant, both of which are paid directly from the Government to LAs. The arrangements in place between LAs and their partners to manage and monitor their obligations under the Better Care Fund may provide helpful information to auditors when undertaking their risk assessment.

## Governance reporting

**This section sets out the Annual Governance Statement reporting requirements for the audited body mapped against the description of proper arrangements. Auditors might find this useful when considering the “subject matter” as defined in AGN 03 in order to prepare their risk assessment.**

Local bodies' own governance reporting provides helpful, although not necessarily comprehensive, information about the subject matter for auditors' work.

Existing requirements to support Annual Governance Statements are set out below. Note that some governance statement requirements could provide information relevant to more than one sub-criterion, and are included more than once. **Auditors should not consider these categorisations as prescriptive or exhaustive, or use the framework as a ‘checklist’.** The extent to which the information contained in the governance statement will inform the auditor's risk assessment will depend on the auditor's knowledge of the audited body and the quality of the evidence supporting the body's governance statement.



	<b><u>Local Government (CIPFA/SOLACE framework - December 2012)</u></b>
<b>Informed decision making</b>	<ul style="list-style-type: none"> <li>• identifying and communicating the authority’s vision of its purpose and intended outcomes for citizen and service users</li> <li>• reviewing the authority’s vision and its implications for the authority’s governance arrangements</li> <li>• translating the vision into objectives for the authority and its partnerships</li> <li>• measuring the quality of services for users, for ensuring they are delivered in accordance with the authority’s objectives and for ensuring that they represent the best use of resources and value for money</li> <li>• defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements</li> <li>• reviewing the effectiveness of the authority’s decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality</li> <li>• reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability</li> <li>• ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained</li> <li>• developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff</li> <li>• ensuring effective arrangements are in place for the discharge of the monitoring officer function</li> <li>• ensuring effective arrangements are in place for the discharge of the head of paid service function</li> <li>• ensuring effective management of change and transformation</li> <li>• ensuring the authority’s assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact</li> <li>• ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful</li> <li>• whistleblowing and for receiving and investigating complaints from the public</li> <li>• establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation</li> </ul>
<b>Sustainable resource deployment</b>	<ul style="list-style-type: none"> <li>• ensuring the authority’s financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact</li> <li>• undertaking the core functions of an audit committee, as identified in CIPFA’s Audit Committees: Practical Guidance for Local Authorities</li> <li>• identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training</li> </ul>
<b>Working with partners and other third</b>	<ul style="list-style-type: none"> <li>• identifying and communicating the authority’s vision of its purpose and intended outcomes for citizen and service users</li> <li>• translating the vision into objectives for the authority and its partnerships</li> </ul>

<b>parties</b>	<ul style="list-style-type: none"> <li>• defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements</li> <li>• establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation</li> <li>• enhancing the accountability for service delivery and effectiveness of other public service providers</li> <li>• incorporating good governance arrangements in respect of partnerships and other joint working and reflecting these in the authority's overall governance arrangements</li> <li>• whistleblowing and for receiving and investigating complaints from the public</li> <li>• establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation</li> </ul>
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## Sector specific resources

**This section sets out some of the key stakeholders and their publications that auditors might find useful when preparing their risk assessment. Where a framework or guidance suggests “best practice” this will not necessarily map onto proper arrangements for VFM, where adequate practice may suffice. Auditors might wish to add value and make the audited body aware of “best practice” guidance they identify.**

**National Audit Office:** The NAO scrutinises public spending for Parliament. It publishes various outputs relevant to the audited body's sector; in this case on [local services](#). Reports that might be of particular interest to auditors of LAs include:

- [A Short Guide to the NAO's work on local authorities](#) (published August 2015)
- [Devolution responsibilities to cities in England: Wave 1 City Deals](#) (published July 2015)
- [Local government new burdens](#) (published June 2015)
- [Financial sustainability of local authorities 2014](#) (published November 2014)

**Local Government Association (LGA) publications:** The LGA regularly produces guidance and case studies that cover local government. For example, it maintains [LG Inform](#), which is designed to provide up-to-date published data about a local area and the performance of LAs. Auditors may find these resources helpful to either identify risk factors or to use as a comparator to the arrangements in place at the audited body.

**PSAA Value for money profiles:** Public Sector Audit Appointments Limited maintains profiles that bring together data about the costs, performance and activity of local authorities and fire and rescue authorities. Auditors may find these profiles helpful to identify risk factors from trends in input, output, and outcome data relevant to the audited body.