



Technical update

Incorporating the External Audit Progress Report





Ashfield District Council

November 2016

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This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact  Medium impact  Low impact  For information



External audit progress report

External audit progress report

This document provides the Governance and Audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	<p>Since the Committee meeting on 26 September 2016 we:</p> <ul style="list-style-type: none"> • issued an unqualified opinion on your 2015/16 accounts on 29 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year; • issued our certificate on 29 September 2016 confirming that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice; • produced our 2015/16 Annual Audit Letter as required by the National Audit Office’s Code of Audit Practice. The purpose of preparing and issuing the Annual Audit Letters is to communicate to external stakeholders, including members of the public, the key issues arising from auditors’ work. This information will be published on the PSAA website and is attached as a separate paper for the Committee’s information. We encourage you to publish this information on the Authority’s website; • met with Dave Greenwood, Deputy Chief Executive Officer and Sharon Lynch, Corporate Finance Manager to debrief on the 2015-16 audit process and agreed actions to continue to improve the efficiency and effectiveness of our audit work; and • commenced our planning work for the 2016/17 audit and in particular: <ul style="list-style-type: none"> • Met with the Deputy Chief Executive Officer and Corporate Finance Manager to understand the current issues and priorities facing the Authority; • Met with the Deputy Chief Executive Officer, Corporate Finance Manager, Ashfield Homes Ltd Accountant and the audit team of AHL to discuss and agree the audit approach in relation to the Authority bringing Ashfield Homes Limited in house, with effect from 1st October 2016.

External audit progress report (cont.)

Area of responsibility	Commentary
Value for Money	Also on 29 September 2016 we issued an unqualified conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.
Certification of claims and returns	Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is in progress. We expect to conclude on the work by the deadline of 30 November 2016.

Appendix 1

2015/16 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year.	April 2015	Done
External audit plan	Outline our audit strategy and planned approach. Identify areas of audit focus and planned procedures.	February 2016	Done
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	Done
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	Done
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	Done
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	October 2016	Done
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	January 2017	tbc



Technical developments

Technical developments

Appointment of external auditor

Level of impact: ● (Medium)

KPMG perspective

Following the Audit Commission's closure local authority external audits are currently governed by transitional arrangements under the *Local Audit and Accountability Act 2014*, with audit contracts overseen by Public Sector Audit Appointments Ltd (PSAA). These transitional arrangements end with the audit of 2017/18 financial years, so auditors must be appointed under the new arrangements from 2018/19. In practice this decision must be made by 31 December 2017. There are three main options for local authorities to consider:

1. Undertake an individual auditor procurement and appointment exercise;
2. Undertake a joint audit procurement and appointing exercise with other bodies, for example those in the same locality; or
3. Join a 'sector led body' arrangement where an approved third party procures audit on behalf of multiple bodies.

As the relevant supervisory body, the Institute of Chartered Accountants in England and Wales (ICAEW) maintains a register of audit firms and 'key audit partners' who have been recognised as meeting the eligibility criteria for local audit. Whatever the approach taken, local authorities can only appoint audit firms from the ICAEW register. KPMG has been registered by ICAEW for local audit work and has 21 Partners and Directors recognised as meeting the eligibility criteria, providing comprehensive national coverage through an experienced senior team.

For options 1 and 2, the Act requires an Auditor Panel to be established. Guidance on auditor panels at local authorities has been issued by the CIPFA – see www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf

One option, subject to complying with EU procurement rules, might be to continue with your current auditor for an initial period. Although this would delay testing the market, fees could be benchmarked for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and avoid the 'rush to market' as other local authorities undertake procurement exercises within a short time period, allowing tendering later in a more settled market.

Members may wish to discuss the options open to them on how to procure their auditor for 2018/19 and beyond and ensure they formulate a timetable for making this decision.

Technical developments

Appointment of external auditor (cont.)

Level of impact: ● (Medium)

KPMG perspective

The Audit Commission produced a report and slide pack summarising the lessons learnt from its 2012 and 2014 procurements of audit services, providing the reader with a list of factors that contributed to the delivery of successful outcomes for both procurements. A copy of this document can be found on the PSAA website at www.psa.co.uk/wp-content/uploads/2016/01/Learning-the-lessons-from-the-2012-and-2014-Audit-Commission-procurements-of-audit-services.pdf

The lessons learnt may be helpful in generally informing procurements of audit services undertaken by individual local public bodies or collective procurement bodies under the new arrangements. However, it should be noted that the procurements undertaken by the Audit Commission were unique to the Commission's regime and the approaches taken may not be relevant in their entirety to other procurements.

For option 3, in July 2016 the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the *Local Audit (Appointing Person) Regulations 2015*. This means that PSAA can make auditor appointments from 2018/19 to relevant principal authorities that choose to opt into its national collective scheme. For further information, see PSAA's website - www.psa.co.uk/supporting-the-transition/appointing-person/

Technical developments

NAO Report on Capital Expenditure and Resourcing

Level of impact: ● (Low)

KPMG perspective

Committee members may wish to be aware that the National Audit Office has published its report *Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing*. This report found that 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 report can be accessed via the NAO website at www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/

The Committee may wish to seek assurances that the impact for their Authority is understood.

Technical developments

PSAA's Value For Money Tool

Level of impact: ● (Low)

KPMG perspective

The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 1 July 2016.

The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years. The children and young people section has also been updated with 2014/15 data.

The VFM profiles have also been updated with the latest available data from the following sources:

- Adult Social Care Financial Return (new data collection) (2014/15)
- Referrals, assessments and packages of care for adults (RAP) (2014/15)
- Pupil numbers (2015)
- Provision for Children Under Five Years of Age in England (2015)
- Children in Care and Adoption Performance Tables (2014/15)
- Key Stage 2 Attainment (2014/15)
- GCSE and Equivalent Attainment by Pupil Characteristics in England (2014/15)
- Section 251 outturn data - Table A1 Children and young people services (2014/15)
- Section 251 outturn data - Table A Education budget (2014/15)
- Special Educational Needs in England (2014/15)
- Attainment by Age 19 (2014/15)
- Participation in Education, Training and Employment by 16-18 Year Olds in England (2015)
- Pupil Absence in Schools (2014/15)
- National road maintenance condition survey (2014/15)

The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.

Technical developments

PSAA's Value For Money Tool (cont.)

Level of impact: ● (Low)	KPMG perspective
<ul style="list-style-type: none">— Proportion of bus services running on time (2014/15)— Annual Population Survey (2015)— Finance and General Statistics (2014/15)— Revenue Collection (2014/15)— Claimant count (2016)— Affordable housing supply (2014-15)— Active people survey (2014/15)— Public Health Outcomes Framework (2014/15)— Conception Statistics, England and Wales (2014)— First time entrants into the Youth Justice system (2014/15) <p>The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</p>	

Technical developments

2015/16 Code of Practice Update

Level of impact: ● (Low)

KPMG perspective

CIPFA/LASAAC has issued an update to the *2015/16 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.

Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.

The Code update also includes amendments as a result of legislative changes and particularly the *Accounts and Audit Regulations 2015* for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.

The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code.

Technical developments

Government contracting

Level of impact: ● (For Information)

The NAO has recently published an overview of its work on the government's management of contracting which Committee members may wish to be aware of, particularly in relation to value for money arrangements.

The publication examines subjects including the government's commercial capability, accountability and transparency, and its management of contracted-out service delivery. It finds that government now spends about £225 billion a year with private and voluntary providers. The role of providers in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high profile commissioning arrangements in sensitive public service areas such as health and justice.

The overview is available from the NAO website at www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/

Devolution

Level of impact: ● (For Information)

In spring 2016, the NAO published its report *English devolution deals*. This report finds that devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended.

The report is available free of charge and the full version or a summary can be accessed at www.nao.org.uk/report/english-devolution-deals/

Technical developments

Councillors' travel expenses

Level of impact: ● (Low)

KPMG perspective

HM Revenue and Customs (HMRC) are in the process of contacting Local Authorities to commence PAYE and NIC compliance reviews focusing on the historic treatment of councillors' mileage expenses. Those authorities that are unable to demonstrate they have reported payments correctly face a tax and NIC charge, with interest and potentially penalties applying.

The previous rules

Up until 5 April 2016, HMRC could agree that for some councillors, home is a place of work and therefore the cost of journeys to council offices could be paid free of tax and NIC. This could have been the case where, for example, councillors were required to see constituents at home. HMRC do not accept however that working from home out of choice makes home a place of work and in these cases, any expenses reimbursed in respect of travel to council offices should have been subject to tax and NIC.

HMRC Compliance Reviews

Those local authorities that are unable to support their historic treatment of councillor mileage expenses face a liability to unpaid PAYE, NIC, interest and potentially penalties going back four, and possibly six years. It will be important for local authorities to review their expenses records to determine how travel expenses have been treated and the processes and rationale behind that treatment. Given that different councillors can have different working patterns it will be important to review the treatment on a case by case basis.

The new rules

With effect from 6 April 2016, a new exemption has been introduced for councillors' travel expenses. From this date, a councillor's journey between their home and their office will be treated as 'business travel' which means that any mileage expenses reimbursed for this journey will, up to certain limits, be free of tax and NIC (subject to their home not being more than 20 miles outside the relevant authority boundary).

How KPMG can help

KPMG's public sector Employment Tax specialists provide practical advice on dealing with HMRC Employer Compliance reviews. We regularly assist local authorities in liaising with HMRC and staying ahead of legislative and practice developments. If you would like to speak to one of our specialists please contact your normal KPMG contact.

The Committee may wish to seek assurances how their Authority is progressing with the new requirements.



KPMG resources

Publication 'Reimagine – Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

Council cash crunch: New approach needed to find fresh income

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

Councils can save more than cash by sharing data

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

Senior public sector pensions

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

Time for the *Care Act* to deliver

- Momentum behind last year's *Care Act* risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>

Publication 'Redefining internal audit - Local Government'

KPMG has issued a new publication which seeks to provide an overview on the current status of internal audit in local government and highlight areas where internal audit providers could provide greater value. There are a number of factors affecting local authorities internal audit provisions and the publication aims to address these.

Funding cuts to local authorities have resulted in reductions in the number of audit days and scaled back internal audit plans. This has led to an increased focus on strategic risks within internal audit. Provision of internal audit services varies greatly between authorities, ranging from in-house to consortium providers.

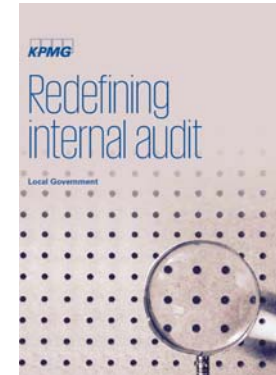
Research suggests that data analytics and assurance mapping are utilised by few local authorities for internal audit purposes and this constitutes a key area for development. Whilst initial costs may be incurred, often complex software packages are not required, even for data analytics. Shifts towards greater use of data analytics may offer greater levels of assurance, increase efficiency and allow resources to be focused on higher risk areas.

Few authorities have IT specialists within their internal audit teams, a factor that may be worth considering in the future if data analytics continue to become an area of increasing importance.

Crucially, many authorities have yet to undertake the mandatory external assessment of compliance with the Public Sector Internal Audit Standards and while authorities are delaying the assessment to allow time for change, the deadline date is 31 March 2018.

The full publication can be found at :-

<https://home.kpmg.com/uk/en/home/insights/2016/10/redefining-internal-audit.html>





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