



External audit progress report and technical update



South Holland District Council

May 2016



Progress report

External audit progress report – May 2016

<p>This document provides the Governance and Audit Committee with a high level overview on our external audit.</p> <p>At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.</p>	<p>Since the last meeting of the Governance and Audit Committee we have updated our risk assessments and undertaken our interim audit. We will continue to liaise with management on the significant financial and operational issues at the Authority and relevant current and emerging issues in respect of the accounts and value for money conclusion.</p> <p>Accounts Audit</p> <p>We undertook our interim audit work during April 2016. The planned audit work has included:</p> <ul style="list-style-type: none">• Updating our understanding and performing walk through and controls testing on key financial systems;• Testing of controls for significant accounts;• Determining our approach for data and analytics testing;• Discussing the accounting requirements for 2015/16, including relevant changes to the CIPFA guidance; and• Discussing with management the general proposals for the closure of accounts process and our working paper requirements. <p>Value for Money Conclusion</p> <p>We have carried out an initial risk assessment against the new criterion specified by the National Audit Office for 2015/16 onwards.</p> <p>Our risk assessment is ongoing and the focus of our work will be around your Medium Term Financial Planning arrangements. We will update our risk assessment during the year and report our conclusions in the ISA260 report to the Governance and Audit Committee in September 2016.</p>
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External audit progress report - May 2016

We have held two workshops aimed at improving the accounts production and audit process.

Local Government Technical Update – February 2016

We once again ran a series of local government accounts workshops for key members of our clients' finance teams. The workshops were focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2015/16 close down and statement of accounts. The workshops were led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh. Representatives from your finance team attended one of the events. The agenda included:

- Review of 2014/15;
- Key Issues and developments for 2015/16 and Longer term developments; and
- Tax and Pensions specialists.

Early Accounts Closure Workshop – March 2016

We held a workshop for our local Government clients to help them as part of their planning for the bringing forward of the accounts closure deadline for the 2017/18 Accounts. We will ensure that members of your finance team are provided with copies of the course materials and outputs. The workshop agenda covered:

- Background to the changes and the new statutory requirements;
- Presentation by practitioners from a County Council and District Council who had already successfully brought forward their closure dates;
- An interactive session to identify the barriers to early closure and the possible solutions;
- Further insights on the arrangements for early closure in 2014/15 at Oldham and Westminster Councils; and
- The audit requirements.

External audit progress report - May 2016

Audit fee update and other work	<p>At this stage there are no changes planned to the scale audit fee of £44,537 communicated to the Authority in April 2015 and in our February 2016 Audit Plan.</p> <p>No other audit related or non-audit work is in progress or planned for 2015/16.</p>		
Actions	<p>We ask the Governance and Audit Committee to:</p> <ul style="list-style-type: none"> ▪ NOTE this progress report 		
Contacts	<p>John Cornett, Director john.cornett@kpmg.co.uk</p>	<p>Helen Brookes, Manager helen.brookes@kpmg.co.uk</p>	<p>Jon Machej, Assistant Manager jon.machej@kpmg.co.uk</p>



Technical update

Technical update

New local audit framework

Level of impact ●

KPMG perspective

The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.

DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies.

CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf. The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established.

NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.

Members may wish to review the CIPFA guidance and begin initial discussions with colleagues about the approach the Authority may wish to adopt.

Technical update

DCLG consultation on pension fund investment reform	
Level of impact ●	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has recently closed a consultation on revised regulations for the investment of local government pension scheme assets. The proposed regulations include the proposal to allow pension schemes to pool assets for investment purposes.</p> <p>The revised regulations can be found here at www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</p> <p>The outcome of the consultation will be published here: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme</p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>
Accounts and Audit Regulations 2015 – Exercise of public rights	
Level of impact ●	KPMG perspective
<p>Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards.</p> <p>Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced.</p> <p>Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights.</p> <p>As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.</p>	<p><i>The Committee may wish to seek assurances that the necessary arrangements are in place for their Authority.</i></p>

Technical update

Accounts and Audit Regulations 2015 – Narrative statements

Level of impact ●

KPMG perspective

Authorities will need to be aware that the Accounts and Audit Regulations 2015 require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states:

Narrative statements

A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.

A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge.

The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's Code of Practice on Local Authority Accounting (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.

The Committee may wish to seek assurances that their Authority has arrangements in place to meet the new requirements.

Technical update

Consultation on 2016/17 audit work programme and scales of fees

Level of impact ●

KPMG perspective

Public Sector Audit Appointments Ltd (PSAA) published its consultation on the 2016/17 proposed work programme and scales of fees.

The consultation set out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psaa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/

There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.

Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings.

PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly.

The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The consultation closed on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.

The Committee may wish to seek assurances on how their Authority have responded to the consultation.

Technical update

CIPFA briefings on accounting for highways infrastructure assets

Level of impact ●

KPMG perspective

CIPFA has published the first of a series of briefings on highways infrastructure assets.

The first briefing focuses on the decisions made by CIPFA/LASAAC Local Authority Accounting Board following its consultation on the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The briefing also covers the applicability of the measurement requirements for district councils and the resources available to support the implementation process. In particular the briefing notes:

- the change to recognising the assets using the depreciated replacement cost approach will be prospective, so will not require the 2015/16 accounts to be restated; and
- district councils are unlikely to meet the definition of having a single highways network asset, although they will need to reach their own view on this.

The first briefing can be found at

www.cipfa.org/~media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/final%20briefing%20hna%20no%201.pdf?la=en

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

Technical update

2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – update	
Level of impact ●	KPMG perspective
<p>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.</p> <p>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.</p> <p>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.</p>	<p><i>The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code.</i></p>
Better Care Fund policy framework 2016/17	
Level of impact ●	KPMG perspective
<p>The Department of Health, in conjunction with the Department for Communities and Local Government, has recently published 2016-17 Better Care Fund planning guidance.</p> <p>The guidance introduces a number of changes, requiring local clinical commissioning groups (CCGs), councils and providers to establish risk sharing arrangements to fund unplanned emergency admissions. Local areas will also have to agree to 'stretching' local targets for cutting delayed transfers of care supported by an action plan.</p> <p>The guidance can be found here: www.gov.uk/government/publications/better-care-fund-how-it-will-work-in-2016-to-2017</p>	<p><i>The Committee may wish to seek assurances how their Authority is developing these arrangements.</i></p>

Technical update

Capital receipts flexibility	
Level of impact ●	KPMG perspective
<p>The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary:</p> <ul style="list-style-type: none"> ■ the flexibility is available from 1 April 2016 to 31 March 2019; ■ only capital receipts generated during that period can be used for the flexibility; ■ the Secretary of State's direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period; ■ authorities will not be allowed to borrow to fund revenue expenditure on service reform; and ■ authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility. <p>We understand that DCLG's aim is that the final signed direction will be issued with the final settlement in February 2016.</p> <p>A copy of the draft guidance can be found at www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf</p>	<p><i>The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.</i></p>

Technical update

PSAA update – VFM profiles March 2016 release

Level of impact ● (for information)

Public Sector Audit Appointments Ltd (PSAA) updated its Value for Money Profiles Tool (VFM profiles) on 3 February 2016.

The VFM profiles have been updated with the 2014-15 data sourced from the Department for Communities and Local Government – General Fund Revenue Outturn Budget (RO). The values are adjusted with gross domestic product (GDP) deflators from HM Treasury's publication in November 2015. The profiles can be accessed through the PSAA website at www.psa.co.uk/

Joint report by CIPFA and HFMA: The Better Care Fund – six months on

Level of impact ● (for information)

Authorities may wish to be aware of a recent joint report by CIPFA and the Healthcare Financial Management Association (HFMA) examining the progress that has been made six months into the implementation of Better Care Fund arrangements.

The report is based on the results of an HFMA and CIPFA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites.

The report can be found on the CIPFA website at www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape

Proposed changes to business rates and core grant

Level of impact ● (for information)

This report has been published by the National Audit Office and complements its earlier report on central government's approach to the Care Act first-phase reforms.

This further report provides examples from local case study areas which show how different authorities are addressing risks arising from uncertainty in demand from carers and self-funders.

The report was published on 3 August and is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/

Technical update

The LGA's 2015 Spending Review submission

Level of impact ● (for information)

Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. 'Devo Manc' encompasses a broad range of proposals to address the challenges and opportunities GM is facing:

Health and Social Care

Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care.

As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested.

GM proposals

In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region:

- *Investment in transport infrastructure*
- *New funding mechanisms to support site remediation and infrastructure provision*
- *Making better use of Social Housing Assets to support growth*
- *Locally led low carbon*
- *A scaled-up GM Reform Investment Fund*
- *Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance*
- *Fundamental review of the way services to children are delivered*
- *Research and innovation funding*
- *Investment in integrated business support to drive growth and productivity*
- *Reform of the New Homes Bonus*
- *Further employment and skills reform*
- *GM approach to data sharing across public agencies*
- *Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax*

All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.

Technical update

The LGA's 2015 Spending Review submission

Level of impact ● (for information)

The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.

The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that "the way this country is run is broken".

Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved, he said

The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

Cities and Local Government Devolution Act 2016

Level of impact ● (for information)

Authorities will wish to note that the Cities and Local Government Devolution Act 2016 received Royal Assent on 28 January 2016. The Act provides the enabling legislation to:

- allow for the election of mayors for a combined authority area;
- allow for the devolution of functions, including transport, health, skills, planning and job support; and
- provide a power to establish sub-national transport bodies which will advise the Government on strategic schemes and investment priorities in their own area.

Most of the changes under the Act, including the implementation of 'devolution' deals, will be implemented by Orders to be made under the Act.



Appendix 1

Audit deliverables

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
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	If Required	N/A
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	TBC
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	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual Audit Letter	Summarise the outcomes and the key issues arising from our audit work for the year.	September 2016	TBC
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.	February 2017	TBC



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