External Audit: Progress Report and Technical Update

South Holland District Council

Governance and Audit Committee – May 2018

Contents

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This report provides the Governance and Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights some of the recent communications and other publications on 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.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

External audit progress report - May 2018

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

At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.

	Commentary
2017/18 Audit	We presented the 2017/18 audit plan for the external audit of the Authority to the March 2018 Governance and Audit Committee. We have continued to liaise with management on the significant financial and operational issues at the Authority. We carried out the interim audit in April 2018. The work included: • Updating our risk assessments, including those covering accounting estimates, fraud, IT, service organisations and other aspects of the general control environment. • Understanding the processes (systems) for the identified significant accounts, and testing the operation of the controls within those processes. • Testing the journals and financial reporting controls. • Reviewing the arrangements which are relevant to the VFM conclusion. There is only one issue to report to the Committee as a result of this work. This relates to the externally hosted version of iTrent, the payroll system provided by Midland HR. Midland HR have full access to the system and the Authority and we, as auditors, need to gain assurance that this privileged access does not present a risk. Midland HR can provide a 3rd party assurance report (ISAE3402), and we would recommend that the Authority, along with the other parties to the contract, commissions this report. In the absence of this, we would need to undertake further work to gain assurance over the access rights to the system. Our work over the coming quarter will include: • ongoing liaison with finance staff and Internal Audit and further meetings with senior officers as part of the audit process to better understand the current and longer term issues that the council is addressing; • confirming the working paper requirements for the final accounts audit, and discussing the ‘Prepared by Client’ schedule; • starting our final accounts audit which is planned for the 18th June 2018; and • revisiting our VFM conclusion risk assessment and forming our VFM conclusion for 2017/18. The results of our audit will be reported to the July 2018 Governance and Audit Committee.
Technical Update	At Appendix 1 we have provided a technical update on a small number of relevant reports and publications by the National Audit Office, CIPFA and other bodies which have been issued in recent months.

Appendix 1 - Technical update - NAO publications

Area	Comments
Financial sustainability of local authorities in 2018	This report reviews developments in the sector and examines whether The Ministry of Housing, Communities & Local Government (the Department) along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities. The NAO reported on the financial sustainability of local authorities in 2013 and 2014. This report updates and builds on that work and draws out the following main conclusions for the Department and Wider Government:. **The Department** The NAO concluded that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased: • Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams. • The current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014. The financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money. • The Department's performance had improved since the NAO's last study. However, conditions in the sector have worsened and the Department must continue to strengthen its oversight and assurance mechanisms to protect against risks to value for money from financial failure in the sector. It must also set out at the earliest opportunity a long-term financial plan for the sector that includes sufficient funding to address specific service pressures and secure the sector's future financial sustainability. **Wider government** The NAO points out that the Department's capacity to secure the sector's financial sustainability in the context of limited resources is shaped by the priorities and agendas of other departments. The NAO concludes that the Department's improvements in understanding and oversight are necessary but not enough. Equally, because responsibility for services is dispersed across departments, each department has its own narrow view of performance within its own service responsibilities. There is no single central understanding of service delivery as a whole or of the interactions between service areas. The NAO points out that to date, the current spending review period has been characterised by one-off and short-term funding fixes. Where these fixes come with restrictions and conditions, this poses a risk of slowly centralising decision-making. This increasingly crisis-driven approach to managing local authority finances also risks value for money. NAO states that the current trajectory for local government is towards a narrow core offer increasingly centred on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources. The implications for value for money to government from the resulting re-shaping of local government need to be considered alongside purely departmental interests. Departments need to build a consensus about the role and significance of local government as a whole in the context of the current funding climate, rather than engaging with authorities solely to deliver their individual service responsibilities. A copy of the report and other related publications can be found on the NAO website at https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/

Appendix 1 - Technical update – NAO publications

Area	Comments
Converting Maintained Schools to Academies (February 2018)	NAO assessed the Department's approach and the extent of academy conversion; the robustness, cost and speed of the conversion process; and the availability of sponsors and multi-academy trusts to support schools to convert to academies. The report states that: • by January 2018 the Department had converted nearly 7,000 maintained schools to academies, at an estimated cost of £745 million since 2010-11. Most of the academies had been performing well as maintained schools but it had taken longer than intended to convert a sizeable proportion of underperforming schools that it considers will benefit most from academy status. More recently the Department has started to be more rigorous in its scrutiny of applicants' financial sustainability and governance. • Challenges are likely to increase in the future. The Department had not explicitly set out its current policy, but it was unclear how feasible it would be for it to continue to convert large numbers of schools. Most schools that are still maintained by local authorities are primary schools. These include small, sometimes remote, schools that tend to be less easy to integrate into multi-academy trusts. • There is substantial variation across the country, in the relative proportions of maintained schools and academies and in the availability and capacity of sponsors to support schools most in need. This complicated position means that it is incumbent on the Department to clarify its policy and make sure that the school system is coherent with all of its parts working effectively together. This will be crucial to secure value for money and provide children with access to good end-to-end schooling A copy of the report can be found on the NAO website at https://www.nao.org.uk/report/converting-maintained-schools-to-academies/
The Adult Social Care Workforce in England (February 2018)	In this report the NAO concludes that the Department of Health and Social Care is not doing enough to support a sustainable social care workforce. • There is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7%. Demographic trends suggest that demand for care will continue to increase and people's care needs will continue to become more complex. The Department estimates that the workforce will need to grow by 2.6% every year until 2035. • The social care market is operating in challenging circumstances. Care providers struggle to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is to reduce further over the next two years. Uncertainty over funding is limiting local authorities' ability to plan spending on care. The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers' income comes from local authority-arranged care. Most local authorities are paying fees below the recommended minimum price for care, putting providers in financial difficulties. There is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care. • The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. The NAO found no evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care. The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities. A copy of the report can be found on the NAO website at https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/

Appendix 1 - Technical update - NAO publications

Area	Comments
Sustainability and transformation in the NHS and Reducing Emergency Admissions	**Sustainability and transformation in the NHS (January 2018)** The NAO found that additional funding (the £1.8 billion Sustainability and Transformation Fund in 2016-17) aimed at helping the NHS get on a financially sustainable footing (with significantly less funding growth planned from 2017-18 onwards) has instead been spent on coping with existing pressures. The Fund has helped the NHS improve its financial position from a £1,848 million deficit in 2015-16 to a £111 million surplus in 2016-17. The NHS was struggling though to manage increased activity and demand within its budget and has not met NHS access targets. • measures taken to rebalance its finances have restricted money available for longer-term transformation, which is essential for the NHS to meet demand, drive efficiencies and improve the service. The NHS transferred £1.2 billion of its £5.8 billion budget for capital projects to fund the day-to-day activities of NHS bodies. • Many trusts are receiving large levels of in-year cash injections, most of which are loans from the Department, which have worsened rather than improved their financial performance. Extra cash support increased from £2.4 billion in 2015-16 to £3.1 billion in 2016-17. • CCGs and trusts are reliant on one-off measures, rather than recurrent savings that are realised each year. Between 2014-15 and 2016-17 the percentage of savings that were non-recurrent increased from 14% to 17% for commissioners, and from 14% to 22% for trusts. This poses a significant risk to the financial sustainability of the NHS in the future. The NAO concluded that progress had been made in setting up 44 new partnership arrangements across health and local government, for a more strategic approach to meeting the demand for health services within the resources available. Partnerships' effectiveness varies and their tight financial positions make it difficult for them to shift focus from short-term day-to-day pressures to delivering transformation of services. NAO made a number of recommendations to the Department, NHS England and NHS Improvement, which includes moving further and faster towards aligning nationwide incentives, regulation and processes, as well as reassessing how best to allocate the sustainability and transformation funding. **Reducing Emergency Admissions (March 2018)** This report examines progress that the Department, NHS England, NHS Improvement and other stakeholders are making in reducing the impact of emergency admissions on acute hospitals. The report looks at action across acute, primary, community and social care systems rather than focusing on A&E departments alone. It builds on the NAO's 2013 report on *Emergency admissions to hospital: managing the demand* and our 2016 report on *Discharging older patients from hospital*, which also examined the pressures on the whole health and social care system. The NAO concluded that the impact on hospitals of rising emergency admissions poses a serious challenge to both the service and financial position of the NHS. Over the last four years, the NHS has done well to reduce this impact despite admitting more people as emergency admissions, largely by reducing length of stay and growing daycase treatment. However, it cannot know if its approach is achieving enduring results until it understands whether reported increases in readmissions are a sign that some people admitted as an emergency are being discharged too soon. The NHS also still has too many avoidable admissions and too much unexplained variation. A lot of effort is being made and progress can be seen in some areas, but the challenge of managing emergency admissions is far from being under control. Copies of the reports can be found at https://www.nao.org.uk/report/sustainability-and-transformation-in-the-nhs/ and https://www.nao.org.uk/report/reducing-emergency-admissions/

Appendix 1 - Technical update - NAO publications

Area	Comments
Round-up for Governance and Audit Committees	This interactive round-up of NAO publications is intended to help Audit Committees, Boards and other users by outlining the latest NAO resources for governance and oversight, risk management and strategic management issues. It also sets out how to keep in touch with NAO insight on specific issues and/or sectors. It is published each autumn and spring, covering NAO publications over the previous six months. The March 2018 edition can be found at the following link: https://www.nao.org.uk/report/round-up-for-audit-committees/ The publication includes useful articles on: • Cyber Security • Managing Conflicts of Interest • Contract and Programme Management, including insights and examples from NAO work relating to: managing contracted-out service delivery; commercial capability; and managing markets.

Appendix 1 - Technical update - CIPFA publications

Area	Comments
CIPFA Statement on Northamptonshire County Council being the subject of a Section 114 Notice e	In February 2018 the Council's S151 officer issued a 'section 114 notice' (under the Local Government Finance Act 1988) banning all new expenditure at Northamptonshire County Council, with the exception of statutory services for protecting vulnerable people. Further to this an advisory notice (under Section 29 of the Audit and Accountability Act 2014) was issued to the Council by its external auditor which highlighted concerns about the authority's proposed budget and what they claim was an over-reliance on the use of capital receipts. CIPFA's statement says that the news that Northamptonshire County Council is the subject of a Section 114 Notice is not surprising for three reasons. *First, the local government sector is under enormous strain following significant resource reductions since 2010. CIPFA has advised both the Ministry of Housing, Communities and Local Government (MHCLG) and the LGA that we are likely to see other councils reach this point in the next two to three years if the government does not provide a more sustainable framework for local government finances.* *Secondly, in the specific case of Northamptonshire, it is a council that has traditionally received tight resources and has generally been a low-cost authority. An adverse OFSTED report placed the corporate position under strain. At the same time the number of elderly people has risen, creating budget pressures.* *Thirdly, the county's transformation programme, though innovative, has not yielded sufficient savings and the council depleted its reserves in an unwise manner without alternative compensatory savings of the order needed. However, we have seen other councils suffering the same general and specific strains manage their budgets more effectively. With Northampton, it appears to have now deteriorated too far for the council to be able to manage its finances and government intervention is likely to be needed to set a path for the future.* CIPFA's statement can be found at the following link: http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/sustainability-of-the-nhs-is-reliant-on-upfront-investment,-robust-governance-and-awareness-of-risk In 2016 CIPFA issued a helpful briefing which looks at what it means to have a balanced budget, what factors have a negative impact on the finances, the impact of a spending freeze and what happens if a Section 114 notice is implemented. The briefing can be found at: http://www.cipfa.org/policy-and-guidance/reports/balancing-local-authority-budgets-and-section-114-notices

Appendix 1 - Technical update - CIPFA and MHCLG publications

Area	Comments

CIPFA Bulletin 01 Closure of the 2017/18 Financial Statements	This bulletin covers the closure of accounts for the 2017/18 year and provides further guidance and clarification to complement the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2017/18 Code Guidance Notes.
	
	The Bulletin covers:
	• Changes to the 2017/18 accounts closure timetable
	• Guidance relating to:
	    • Accounting for the Apprenticeship Levy
	    • Accounting standards that have been issued but have not yet been adopted
	    • The item 8 debit/credit determination (housing authorities only)
	    • 'Going Concern' basis of accounts
	    • Other changes introduced by the 2017/18 Code
	
	The Bulletin also provides a briefing on the anticipated changes to the 2018/19 Code and future years' Codes.
	
	http://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-01-closure-201718

Publication of Statutory Guidance for Local Authority Investments and the Minimum Revenue Provision	The Ministry of Housing, Communities and Local Government (MHCLG) published in February 2018 its summary of responses to the November 2017 consultation, alongside the updated Codes. The MRP guidance applies for accounting periods starting on or after 1 April 2019, with the exception of paragraphs 27-29 of this guidance "Changing methods for calculating MRP", which apply from accounting periods starting on or after 1 April 2018. The Investment guidance applies from accounting periods starting on or after 1 April 2018. The new guidance can be found at the following link: https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance

kpmg.com/socialmedia

kpmg.com/app

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