



# External Audit: Progress Report and Technical Update

**North East Derbyshire District Council**

Audit and Corporate Governance Scrutiny Committee – April 2017

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The contacts at KPMG in connection with this report are:

**Tony Crawley**

*Director*

**Tel: 0116 256 6067**

[tony.crawley@kpmg.co.uk](mailto:tony.crawley@kpmg.co.uk)

**Kay Meats**

*Manager*

**Tel: 0115 945 4485**

[kay.meats@kpmg.co.uk](mailto:kay.meats@kpmg.co.uk)

**Joseph Mugwagwa**

*Assistant Manager*

**Tel: 0121 232 3175**

[joseph.mugwagwa@kpmg.co.uk](mailto:joseph.mugwagwa@kpmg.co.uk)

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This report provides the Audit and Corporate Governance Scrutiny 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.psa.co.uk](http://www.psa.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 Tony Crawley, 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](mailto: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](mailto: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

# External audit progress report – April 2017

This document provides the Audit and Corporate Governance Scrutiny 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	
<b>2016/17 audit</b>	<p>Since the last Audit and Corporate Governance Scrutiny Committee meeting in February 2017 we have:</p> <ul style="list-style-type: none"> <li>▪ Met with officers to update our risk assessment of the Authority and support the development of our External Audit Plan;</li> <li>▪ Completed our planning work for the 2016/17 audit, the outcome of which was reported to the Chief Financial Officer in our External Audit Plan in March 2017 and is due to be received by the Audit and Corporate Governance Scrutiny Committee in April 2017.</li> <li>▪ Carried out our interim audit visit during March 2017. There are no matters arising which were necessary to be separately reported to you at this stage; and</li> <li>▪ Started our Value for Money (VFM) conclusion work. Our approach follows guidance specified by the National Audit Office in terms of the scope and focus of the work. We have performed an initial assessment of the use of resources risks identified through our risk assessment and the action that management is taking to achieve value for money. There is nothing that we need to report to you at this stage. We are aware of the uncertainties that remain in relation to the future of local government funding, and we will continue our assessment of your arrangements for planning for the future.</li> </ul> <p>Our work over the next quarter will include:</p> <ul style="list-style-type: none"> <li>▪ Commencing our audit of your financial statements. Our year end audit visit has been confirmed and is due to commence on 19 June 2017; and</li> <li>▪ Completing our assessment of your arrangements to provide VFM.</li> </ul>
<b>Technical Update</b>	At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.
<b>Actions</b>	<p>We ask the Audit and Corporate Governance Scrutiny Committee to:</p> <ul style="list-style-type: none"> <li>▪ <b>NOTE</b> this progress report.</li> </ul>



# Appendices

# Appendix 1 - Technical update - National Audit Office publications

Area	Comments
<p><b>Round-up for Audit Committees</b></p>	<p>This interactive round-up (published in October 2016) is designed to make it easy for Audit Committees, Boards and other users to find the NAO resources most helpful for the strategic management of public sector organisations. The round-up includes a focus on risk, summarising some of the learning points in NAO reports that provide particularly useful lessons for key aspects of risk management.</p> <p>The round-up will normally be published each autumn and spring and look back over six months. As the inaugural edition, this publication highlights NAO reports published over the last year, including an introduction by Sir Amyas Morse, Comptroller and Auditor General.</p> <p>The NAO's full report can be found at:</p> <p><a href="https://www.nao.org.uk/wp-content/uploads/2016/10/Round-up-for-audit-committees.pdf">https://www.nao.org.uk/wp-content/uploads/2016/10/Round-up-for-audit-committees.pdf</a></p>
<p><b>Overview of Local Government and DCLG</b></p>	<p>The NAO has recently published two overviews drawing on their recent work in the local government sector which may be of interest to Audit Committee members.</p> <p><b>Overview: Local government (November 2016)</b></p> <p>This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as the NAO's work with local authorities. It covers:</p> <ul style="list-style-type: none"> <li>• how local government is constituted and funded;</li> <li>• local government spending;</li> <li>• findings from the NAO's work on local government; and</li> <li>• a look ahead to the coming year for local government.</li> </ul> <p>The report can be found via the following link:</p> <p><a href="https://www.nao.org.uk/report/overview-local-government/">https://www.nao.org.uk/report/overview-local-government/</a></p> <p><b>Departmental Overview 2015-16: Department for Communities and Local Government (November 2016)</b></p> <p>This Departmental Overview looks at the Department for Communities and Local Government and summarises its performance during the year ended March 2016, together with NAO's recent reports on it.</p> <p>This guide is designed to provide a quick and accessible overview of the Department and focuses in particular on where the NAO believe the Department's performance could be improved, using examples from its published work. It covers:</p> <ul style="list-style-type: none"> <li>• the department's responsibilities and how it spends its money;</li> <li>• financial management;</li> <li>• reported performance; and</li> <li>• issues identified in NAO reports.</li> </ul> <p>The report can be found via the following link:</p> <p><a href="https://www.nao.org.uk/report/departmental-overview-2015-16-department-for-communities-and-local-government/">https://www.nao.org.uk/report/departmental-overview-2015-16-department-for-communities-and-local-government/</a></p>

# Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p><b>The Commercial Imperative</b></p>	<p>This July 2016 report published by Civica, in partnership with CIPFA, outlines the need for councils to improve their commercial skills and seek new income streams in order to close the current funding gap. The report explores the role of commercialisation as a way for authorities to tackle current financial challenges and become self-sufficient and provides step-by-step guidance on how to find the right path to achieve a sustainable commercial model.</p> <p>Independent research spanning 45 local authorities found that:</p> <ul style="list-style-type: none"> <li>• 40% of local authority leaders say commercialisation plays some part in their current strategy, however, only 4% of public sector CEOs and CFOs say they have significant commercial expertise;</li> <li>• positive progress is being held back by a lack of understanding of what the market needs (36%) and concerns about the risks involved (56%);</li> <li>• a restrictive culture (40%) and discomfort about new models (56%) is also having an impact; and</li> <li>• those with a commercial strategy say commercialisation gives them more control over developments in the community, builds closer relationships with the people they serve and supports the creation of new jobs.</li> </ul> <p>Following increased financial uncertainty and another tough financial settlement for councils in England, where government grants have been cut by 25% and organisations are expected to be financially self-sufficient by 2020, local authorities are looking beyond service reduction towards commercialising services. While commercialised approaches and options are plentiful, finding the right strategy that delivers genuine returns is a task that few local authorities have found easy.</p> <p>The report outlines critical success factors influencing commercial journeys, four ways to generate revenue and six practical steps to help local authority leaders build a sustainable commercial model.</p> <p><a href="http://www.cipfa.org/policy-and-guidance/reports/civica-the-commercial-imperative">http://www.cipfa.org/policy-and-guidance/reports/civica-the-commercial-imperative</a></p>

# Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p><b>CIPFA Annual Chief Financial Officer Survey</b></p>	<p>In December 2016 CIPFA published the results of its annual CFO confidence survey. The survey found that CFOs of English councils claim adult and children’s social care services are facing the most significant budgetary pressures in comparison to other services.</p> <p>When asked which three areas are under the greatest budget pressures, 86% of CFOs identified adult social care, with virtually the same percentage also naming children’s social care (85%).</p> <p>CIPFA reported that this came as reports indicate the government is set to encourage local authorities in England and Wales to raise the social care precept even further to boost adult and children’s services. CIPFA questions whether the precept is the fairest solution to the funding shortfall.</p> <p>The survey also reveals that CFOs are significantly less confident in the ability of their council to keep delivering services in the next financial year in comparison to this year. Thirty-eight percent of CFOs are ‘less confident’ in their organisation’s ability to deliver services in 2017/18, compared to 15% for 2016/17.</p>
<p><b>Other CIPFA publications</b></p>	<p>In recent months CIPFA has issued guidance covering the following topics which are relevant to the authority:</p> <ul style="list-style-type: none"> <li>• 2016/17 Accounts – CIPFA has published Guidance Notes for Practitioners for the Code on LA Accounting, and example accounts and disclosure checklist for the LGPS Accounts</li> <li>• Local Authority Capital Accounting – a reference manual for practitioners</li> <li>• The Guide to Local Government Finance (2016 edition)</li> <li>• A Practical guide to Alternative Models - This guide gives clear explanations of the different types of alternative models and vehicles, their structures and frameworks</li> <li>• Investment Pooling Governance Principles for LGPS Administering Authorities - This guidance supports authorities in demonstrating best practice governance during the implementation of, and when participating in, LGPS asset pooling arrangements.</li> <li>• Property Asset Valuation: A Handbook for Property and Finance Professionals in Local Authorities (2016 Edition) - This examines complex issues surrounding local authority property assets including classification, valuation and component accounting. This new edition provides guidance around the requirements of IFRS 13 for property asset valuations.</li> </ul>



# Appendix 1 - Technical update - NAO/CIPFA publications

Area	Comments
<p><b>'Financial Sustainability of Local Authorities' and 'National Treasury Risk Study'</b></p>	<p>In June 2016 the National Audit Office (NAO) published its report to the Department for Communities and Local Government (DCLG) into the financial sustainability of local authorities: capital financing and resourcing. Since the demise of the Audit Commission this is the first report providing a national perspective on the state of the financial health of local authorities.</p> <p>Their report considers the capital spending and resource implications over the same period and has some expected and more surprising findings. Despite the fall in revenue resources, capital grants over the same period actually increased albeit by 0.2% and the use of other capital resources such as capital receipts has also increased.</p> <p>The major issue around capital financing has been minimising the impact on revenue spending. The report is complimentary of the approaches taken by authorities using prudent treasury management strategies to minimise external borrowing and reviewing MRP (Minimum Revenue Provision). The use of internal borrowing has avoided revenue interest payments and minimised investment cash balances.</p> <p>The report also looks at the role of DCLG in overseeing the systems in place to ensure sustainability and overall concludes that 'assurance' can be taken from the capital framework based upon CIPFA's Prudential Code. However, there are areas where DCLG can improve performance particularly around identifying issues and trends in the sector. Concerns are raised that with the inevitable focus on short-term revenue pressures some decisions such as changing MRP policies and reducing maintenance programmes may not prove to be prudent decisions in the longer term.</p> <p>In order to help the sector and DCLG, CIPFA re-launched its National Treasury Risk Study on 30 September 2016. Aimed at all local authorities the Risk Study provides objective quantification of an authority's treasury position set against the best practice CIPFA treasury risk framework. The analysis is carried out based on portfolio positioning, the latest balance sheet position and projected spending plans. The results are to be provided to each authority free of charge and will set individual positions and risk strategies against participating peers. The results will also be shared with DCLG to aide with their identification of long term trends within the sector. CIPFA encouraged all authorities to participate to enhance their own decision making and benefit all stakeholders in the sector.</p> <p>NAO's full report and CIPFA's survey can be accessed via the links below:</p> <p><a href="https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/">https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</a></p> <p><a href="http://www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report/risk-management-study">http://www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report/risk-management-study</a></p>

# Appendix 1 - Technical update - NAO and PSAA publications

Area	Comments
<p><b>Updated Guidance to Auditors</b></p>	<p>The Local Audit and Accountability Act 2014 provides the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. To support auditors in their work and facilitate the consistency of approach between auditors, the NAO publishes a series of Auditor Guidance Notes (AGNs). Auditor guidance notes, and supporting information (where relevant) are published on the NAO's website:</p> <p><a href="https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/">https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</a></p> <p>In December 2016 the NAO updated:</p> <ul style="list-style-type: none"> <li>• <i>Auditor Guidance Note 1 (AGN 01) – General Guidance.</i> This is relevant to all auditors of local bodies. It sets out the overall framework for issuing guidance and for providing other support to local auditors. AGN 01 explains the status of statutory guidance issued by the NAO on behalf of the C&amp;AG. It also explains that the NAO issues supporting information and describes arrangements for engagement between the NAO and auditors. There continues to be a section in the AGN on co-operation between local auditors and a section on whistle-blowing. The AGN also continues to set out the protocol that auditors should follow when dealing with technical and legal queries. The main revision to the AGN is to update explanatory and supplementary guidance on meeting the requirements in the <i>Code of Audit Practice</i> to safeguard integrity, objectivity and independence in the conduct of local audit.</li> <li>• <i>Auditor Guidance Note 7 (AGN 07) – Auditor Reporting.</i> This is relevant to all local auditors of bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code) including auditors of foundation trusts. The updated AGN 07 reflects some minor consequential changes arising from revisions to AGN 01, and to refer to NHS Improvement instead of Monitor where relevant.</li> </ul>
<p><b>Report on the results of auditors' work 2015/16: local government bodies</b></p>	<p>This Public Sector Auditor Appointments (PSAA) December 2016 report summarises the results of auditors' work at 497 principal bodies and 9,756 small bodies for 2015/16. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.</p> <p>PSAA concluded that the timeliness and quality of financial reporting for 2015/16, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. The number of principal bodies that received an early unqualified audit opinion (by 31 July) doubled compared with 2014/15. In spite of the challenges they are facing, principal local government bodies are working hard to maintain high standards of financial reporting. The latest results of auditors' work on the financial year to 31 March 2016 show a good position for the majority of organisations. PSAA's report can be accessed via the link below:</p> <p><a href="http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/">http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/</a></p>

# Appendix 1 - Technical update - DCLG and Home Office

Area	Comments
<p>The provisional 2017-18 local government finance settlement</p>	<p>In December 2016 DCLG published the provisional settlement. The publication set out DCLG’s proposals for: <u>The distribution of central resources</u> – it outlines:</p> <ul style="list-style-type: none"> <li>the second year of the multi-year settlement offer for those councils that accepted the Government’s offer, and arrangements for those that did not</li> <li>the reforms to the New Homes Bonus, following consultation earlier this year</li> <li>the introduction of an Adult Social Care Support Grant to be funded from additional savings from the New Homes Bonus in 2017-18</li> <li>the confirmed approach to distributing funding through the Better Care Fund and the allocation methodology.</li> </ul> <p><u>Changes to local resources</u> - including:</p> <ul style="list-style-type: none"> <li>the Government’s proposals for the council tax referendum principles for 2017-18;</li> <li>changes to the approach for adjusting Business Rates (BR) tariff and top ups to manage the impact of the 2017 BR revaluation on local authorities’ income;</li> <li>confirmation of the methodology, for the final settlement, for calculating amongst other things the agreed changes in the local share of retained BR; and</li> <li>confirmation of the mechanism for voluntary transfer of funding between the Mayoral Combined Authority and constituent authorities.</li> </ul> <p>The consultation period ended 13 January 2017.</p>
<p>Organised Crime Procurement Pilot Report</p>	<p>The Home Office has produced an <i>Organised Crime Procurement Pilot Report</i>, which has been circulated to all local authorities, police forces and police and crime commissioners in England and Wales. The report provides findings from pilot studies it has undertaken on the threat that serious and organised crime poses to publicly procured services in local authorities and how to respond to that threat. The report estimates that of the £2.1 billion of local government fraud in 2013, £876m related to procurement fraud. Local government spent around £60 billion on procurement (excluding central services) in 2014-15, so this area is considered to be attractive to serious and organised criminals.</p> <p>The pilots indicated the sectors most at risk were waste services, taxi/transport services and low value spending (generally payments in the hundreds of pounds and in schools for property maintenance services). These sectors can be more vulnerable because they are predominantly cash-based businesses; enable high-value cash transactions; can have market domination within geographical areas; have predictable returns or high levels of potential profit; and present opportunities to launder cash by, for example, acting as a ‘front’ company. Local authority taxi contracts were identified as being at particular risk. The main focus of those contracts is to provide transport for some of the most vulnerable members of society, and criminal groups can use taxis to gain access to the vulnerable.</p> <p>The Home Office is recommending that local authorities share the report and its findings with senior management teams to raise awareness among those responsible for procurement, finance, fraud investigation, internal audit and licensing. The Home Office recommends that authorities liaise with the police as well as organised crime local multi-agency partnership groups in order to identify the greatest areas of risk.</p> <p>The report includes suggestions to strengthen arrangements, and in addition, the Home Office has also produced tools to both raise awareness and protect and reduce vulnerability:</p> <ul style="list-style-type: none"> <li><u>A Serious and Organised Crime Checklist</u> - this enables local authorities to quickly assess their serious and organised crime risks within their organisation.</li> <li><u>A Serious and Organised Crime Audit</u> - a more developed methodology that allows local authority internal audit teams to scrutinise business operations to establish where there may be vulnerabilities.</li> </ul>

# Appendix 2 - 2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	April 2017	Complete
<b>Substantive procedures</b>			
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 Authority's value for money arrangements.	September 2017	TBC
<b>Completion</b>			
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 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	October 2017	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	January 2018	TBC



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