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External audit progress report and technical update

Leicester City Council

July 2014

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 info

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Progress report

This document provides the 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
<p>Financial statements</p>	<p>The planning process for the 2013/14 audit is complete and we presented our detailed Audit Plan to the March meeting of this Committee. The Committee should note the risks identified in the Plan and the work we intend to undertake to address these risks.</p> <p>Since the March 2014 Audit Committee meeting we have:</p> <ul style="list-style-type: none"> ▪ undertaken our interim audit in advance of the final accounts audit. As part of this work we: <ul style="list-style-type: none"> ▪ assess the effectiveness of your financial controls and undertake ‘walk-throughs’ of the key financial controls and perform sample testing; ▪ review and consider internal audit work completed to date; and ▪ review the appropriateness of your arrangements for the prevention and detection of fraud and corruption in accordance with ISA240 (the responsibility to consider fraud), including discussing this with the Local Counter Fraud Specialist and internal audit. <p>We have substantially completed our work in these areas.</p> <ul style="list-style-type: none"> ▪ the key areas to bring to the Committee’s attention are: <p>During the year there has been no formal evidence of review of the monthly bank reconciliation. This is a key control to help ensure the accuracy and completeness of the Council’s accounting records.</p> <p>The Principal Accountant does review these reconciliations, but informally. The lack of audit evidence is because the bank reconciliation is prepared in real time and evidence needs to be retained at the moment of preparation - in some cases it is not.</p> <p>We raised this issue with officers in March, as soon as we became aware. For the March 2014 year end bank reconciliation, and for all subsequent bank reconciliations, the Principal Accountant will evidence his review and ensure that all documentation to support the reconciliation is retained.</p> <p>We plan to commence our audit of the accounts on 11 August 2014. We plan to issue our ISA 260 report ahead of the Audit Committee on 29 September 2014, and our opinion by the deadline of 30 September 2014.</p> <p>There are no matters that we need to bring to the attention of members at this time.</p>

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Area of responsibility	Commentary
Value for Money	<p>We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage. We will update our assessment at year end.</p> <p>We will conclude on the results of the VFM audit through our ISA 260 Report.</p>
Certification of claims and returns	<p>We have started testing of the housing subsidy return for 2013/14. We have selected samples for your staff to complete testing of individual cases; we are reviewing cases to identify if any further testing is required.</p> <p>There are no matters that we wish to bring to members' attention at this stage. The deadline for reporting to DWP is 30 November.</p>



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KPMG resources

Area	Comments
<p>KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years</p>	<p>Without a radical programme of house building average house prices in England could double in just ten years to £446,000, according to new research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 by 2034 if current trends continue.</p> <p>The research from KPMG and Shelter also reveals that, more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own.</p> <p>The warning comes as KPMG and Shelter launch a landmark new report, outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament.</p> <p>With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt.</p> <p>The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market.</p> <p>It calls on politicians to commit to an integrated range of key measures, including:</p> <ul style="list-style-type: none"> ■ Giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land. ■ Unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed. ■ Introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building. ■ Helping small builders to get back into the house building market by using government guarantees to improve access to finance. ■ Fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need. <p>To read the report, visit https://portal.ema.kworld.kpmg.com/uk/Documents/NewsroomDocs/2014/KPMG%20Shelter%20report%20FINAL.pdf.</p> <p>For more information, please contact a member of the audit team.</p>



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Technical update

Area	Level of Impact	Comments	KPMG perspective
<p>Department of Health publishes directions and an explanatory note for the 2014 transfer of funds from the NHS to local authorities</p>	<p>● High</p>	<p>On 4 April, the Department of Health (DH) issued the National Health Service Commissioning Board (Payments to Local Authorities) Directions 2014. The 2014 directions, which apply in respect of NHS England's (NHSE's) payment of £1.1 billion to local authorities in respect of their social care functions for the financial year 2014/15, came into force on 1 April.</p> <p>Each local authority and NHS England should enter into an agreement in relation to the payments to be made and the conditions that apply. The 2014 Directions, and the updated National Health Service (Conditions relating to Payments by NHS Bodies to Local Authorities) Directions 2013, impose certain conditions that must be met in relation to each payment. These include conditions that:</p> <ul style="list-style-type: none"> ■ the funding must be used to support adult social care services which also have a health benefit; ■ the local authority and its local clinical commissioning groups (CCGs) agree how the funding is best used within social care and the outcomes that are expected from the investment; ■ local authorities and CCGs have regard to the Joint Strategic Needs Assessment for their local population and existing commissioning plans for both health and social care in deciding how the funding is to be used; and ■ local authorities must be able to demonstrate how the funding transfer will improve social care services and outcomes for their users. <p>NHSE must not place any other conditions on the funding transfers without the written agreement of the DH and must ensure that it has access to timely information on how the funding is being used locally.</p>	<p><i>The committee may wish to seek assurances that the Authority has complied with the DH Directions</i></p>

Area	Level of Impact	Comments	KPMG perspective
Housing Revenue Account Borrowing Programme	<p style="text-align: center;">● High</p>	<p>On 7 April the government launched the Housing Revenue Account Borrowing Programme which makes £300 million of borrowing available to provide 10,000 new affordable homes in 2015/16 and 2016/17. This funding will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership.</p> <p>The government also published a revised set of General Consents under Section 25 of the Local Government Act 1988 which allows councils to dispose of vacant housing land to private registered providers and non-registered providers at less than market value.</p> <p>For more information visit https://www.gov.uk/government/news/extra-borrowing-powers-for-councils-to-build-10000-affordable-homes</p> <p>&</p> <p>https://www.gov.uk/government/publications/general-consents-for-privately-let-housing</p>	<p><i>The committee may wish to seek further information as to how this affects the Authority</i></p>
Audit Commission calls for improved quality and accuracy in grant and subsidy claims and returns	<p style="text-align: center;">● Medium</p>	<p>78 per cent of councils' claims to the grant-paying body for housing benefit subsidies for 2012/13 were challenged by the Audit Commission's appointed auditors. Auditors issued a qualification letter in 35 per cent (360) of the 1,023 claims and returns made by councils for 2012/13 in respect of seven schemes for grants or subsidies. 255 of the 360 (71 per cent) qualifications related to claims for housing and council tax benefit subsidy. In total, these seven schemes transfer £50.5 billion of public money from central to local government.</p> <p>The full findings in <i>Local Government Claims and Returns: Auditor's Certification Work for 2012/13</i>, also provide an overview of how local authority handling of claims and subsidies has changed since the Commission first produced a national report for the 2008/09 financial year. For example, between 2009 and 2013, auditors made amendments to about one quarter of teachers' pensions returns. 55 teachers' pensions returns (36 per cent) for 2012/13 were qualified, double that for 2011/12.</p> <p>To view the full report, visit http://www.audit-commission.gov.uk/audit-regime/certifying-claims-and-returns/</p>	<p><i>We will report the findings of our 2013/14 certification work in February 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>2014/15 work programme and scales of fees for the National Fraud Initiative</p>	<p>● Low</p>	<p>On Monday 30 June 2014 the Audit Commission published the final 2014/15 work programme and scale of fees for National Fraud Initiative (NFI).</p> <p>The Commission has considered the small number of consultation responses received. Respondents generally supported the Commission’s decision to recognise the financial pressures that public bodies are facing in the current economic climate by keeping the scale of fees the same as for NFI 2012/13. They also raised some specific points, on which the Commission will respond directly to the organisations concerned. A summary of the consultation responses can be viewed at http://www.audit-commission.gov.uk/wp-content/uploads/2014/06/NFI-2014-15-Work-programme-and-scale-of-fees-Consultation-Feedback.pdf.</p> <p>The final work programme and scale of fees documents for the NFI 2014/15 exercise are available on the Commission’s website http://www.audit-commission.gov.uk/national-fraud-initiative/public-sector/fees/.</p> <p>Data request</p> <p>The NFI Team sent the formal NFI 2014/15 data request to all mandatory participant directors of finance on Monday 30 June. Directors of finance of existing voluntary participants also received an invitation to participate. The emails included links to the NFI online instructions which give details of NFI data requirements and also announce the launch of our 2014/15 web application.</p> <p>Participants are required to submit the required data sets, through the secure NFI web application, on Monday 6 October 2014. The Commission expect to release the data matches on Thursday 29 January 2015.</p>	<p><i>The committee may wish to consider whether the Authority has responded to the data request.</i></p>
<p>NFI – June 2014 National Report Published</p>	<p>● For information</p>	<p>On Thursday 12 June 2014 the Audit Commission published its report on the NFI, the Commission’s data matching exercise to help prevent and detect fraud. Since the last report in May 2012 the NFI has identified £203 million of fraud, overpayment and error in England. A further £26 million was identified by the NFI in Scotland, Wales and Northern Ireland bringing total outcomes since the last report to £229 million.</p> <p>Since its launch in 1996, the NFI has enabled the public and private sector participants across the UK to detect fraud, overpayment and error totalling £1.17 billion.</p> <p>To read the report, visit http://www.audit-commission.gov.uk/2014/06/the-national-fraud-initiative-finds-229-million-of-fraud-overpayment-and-error/</p>	

Area	Level of Impact	Comments
Audit Commission 14/15 Scale Fees confirmed	<p style="text-align: center;">● For information</p>	<p>The 2014/15 work programme and scales of fees are now available, alongside the lists of fees for individual bodies. A summary of the responses to the Audit Commission consultation on the work programme and fees is also available.</p> <p>For more information visit http://www.audit-commission.gov.uk/audit-regime/1415WPSF</p>
Update to VFM profiles	<p style="text-align: center;">● For information</p>	<p>The VFM profiles tool is updated regularly. The latest update, due on Friday 11 July 2014, includes a redesigned children and young people section based on the latest section 251 outturn data for 2012/13. This data includes the time series back to 2009/10 wherever possible, and the change brings the children and young people's section in line with the rest of the profiles where outturn data is used. The VFM profiles previously used section 251 planned budget data.</p> <p>This section is now organised into the follow areas of expenditure:</p> <ul style="list-style-type: none"> ■ LA education services ■ Schools and services ■ Sure start & early years ■ Looked after children ■ Safeguarding ■ Youth justice ■ Young people ■ Other children & family services ■ Asylum seekers <p>Each section contains financial indicators from the section 251 outturn data collection and relevant performance or contextual indicators.</p>

Area	Level of Impact	Comments
<p>Update to VFM profiles (cont.)</p>	<p>● For information</p>	<p>On 5 June, the Audit Commission published the latest in its series of VFM briefings, <i>Managing council property assets: Using data from the VFM Profiles</i></p> <p>The briefing draws on Capital Outturn Return (COR) data in the Profiles to show trends since 2004/05 in: the net book value (NBV) of the operational and investment estates; levels of capital investment; and sources of finance for capital investment. It deals with how to release more value from the estate overall, and in particular, it addresses the need for councils to consider how they can best use or dispose of surplus assets, which had a NBV of £2.5 billion in 2012/13.</p> <p>As part of this update the following updated data has been added to the Profiles:</p> <ul style="list-style-type: none"> ■ Sustainable economy section, planning – processing of planning applications – quarter 3 2012/13. ■ Financial resilience, revenue collection services – CIPFA Revenue Collection Statistics – for 2012/13. ■ Environmental services – ENV18 – Local authority collected waste: annual results tables, final annual results for local authority collected waste and management figures for England. The Department for Environment, Food and Rural Affairs revised this data in May 2014. The data in the VFM profiles has been updated to reflect these changes; our analysis of the changes were minimal and only affected one council, Warrington Borough Council, for the total local authority collected waste and household – waste not sent for recycling. ■ Benefits caseload – the latest available monthly data has been added, bringing the latest data to February 2014. <p>For further information visit: http://www.audit-commission.gov.uk/2014/06/can-local-governments-2-5-billion-surplus-assets-be-put-to-better-use/</p>

Area	Level of Impact	Comments
<p>Value for money data briefing on waste collection</p>	<p>● For information</p>	<p>The Audit Commission has published Local authority waste management, the latest in a series of value for money (VFM) data briefings analysing data in the VFM profiles tool. The briefing examines spending and performance on household waste management.</p> <p>In 2012/13 the average spending on household waste management varied between local authorities with similar responsibilities. For example most authorities that both collect and dispose of waste (58 per cent) spent between £125 and £175 per household in 2012/13 but thirteen per cent spent more than £200 per household.</p> <p>In 2012/13, the amount of waste recycled varied from 12 per cent up to 67 per cent, with 40 authorities recycling less than 30 per cent of their household waste. And while landfill has reduced everywhere some regions are still more reliant than others.</p> <p>The variation in performance and spending suggests there may be opportunities to reduce expenditure. If councils were able to reduce their spending to the average for their authority type and waste responsibilities potentially up to £464 million could be saved overall. Any savings could be used to support more sustainable forms of waste management or be reinvested in other services.</p> <p>Previous briefings on councils' expenditure on benefits administration, council tax collection, social care for older people, income from charging and business rates are also available on the Commission's website.</p> <p>For more information visit http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</p>
<p>Financial ratios tool</p>	<p>● For information</p>	<p>On 4 April, the Audit Commission published its updated financial ratios analysis tool.</p> <p>The ratios tool has been updated to include:</p> <ul style="list-style-type: none"> ■ data for the 2012/13 financial year; and ■ the restatement of the 2011/12 data where relevant. <p>The ratio tool continues to include data from 2007/08 for district, unitary and county councils, data from 2008/09 for Greater London Authority bodies and data from 2009/10 for standalone fire authorities.</p> <p>Information is included for police and crime commissioners for 2011/12 and 2012/13 reflecting the data available for these new bodies.</p>

Area	Level of Impact	Comments
The NAO's role in local audit	<p style="text-align: center;">●</p> <p style="text-align: center;">For information</p>	<p>The National Audit Office (NAO) is taking on new responsibilities in the new framework for the audit of local bodies. The NAO has produced a leaflet which provides information on its new role, examples of its recent value for money work focused on local services, and contact details for you to provide views and suggestions or to ask questions about its work.</p> <p>For more information, visit http://www.nao.org.uk/report/the-naos-role-in-local-audit/</p>
Local government funding: Assurance to Parliament (NAO report)	<p style="text-align: center;">●</p> <p style="text-align: center;">For information</p>	<p>A recent NAO report examines how the Department for Communities and Local Government (DCLG) has implemented and oversees the assurance framework that enables departments to assure Parliament on funding for local authorities following the changes in the 2010 Spending Review to give local authorities more control over their funding. The report finds that under current arrangements DCLG's monitoring information gives limited insight into whether value for money is being achieved in practice. It also suggests that departments should assess whether continuing to fund local authorities through unringfenced targeted grants is appropriate in the context of a locally-defined approach to achieving value for money.</p> <p>To view the report, visit http://www.nao.org.uk/report/local-government-funding-assurance-to-parliament/</p>
Maintaining strategic infrastructure: roads (NAO report)	<p style="text-align: center;">●</p> <p style="text-align: center;">For information</p>	<p>The NAO has published a report on Maintaining strategic infrastructure: roads. This report highlights how the lack of predictability of funding for highways authorities has practical implications for the roads network and may lead to increased costs in the long term.</p> <p>Although the report focuses primarily on central government responsibilities it may be of interest to you for your highways management responsibilities.</p> <p>To read the report, visit http://www.nao.org.uk/report/maintaining-strategic-infrastructure-roads/</p>

Area	Level of Impact	Comments
<p>Tenfold difference in outsource spending revealed (Local Government Chronicle article)</p>	<p>● For information</p>	<p>“Exclusive analysis has revealed a tenfold difference in the amount councils spend per head of population on outsourced services.</p> <p>Figures from a database of councils’ published receipts for 2012-13 show a huge gulf in the amount spent by top-tier councils with organisations in the private, public and voluntary sectors.</p> <p>Wigan MBC spent just £116 with outside providers per head of population, compared with over £1,000 at several London boroughs and £1,450 at Southend BC.</p> <p>The data, compiled by research firm Porge and analysed by Local Government Chronicle, presents for the first time a broad picture of the total trade top-tier councils carried out with other organisations, based on all published receipts for expenditure over £500.</p> <p>It shows councils spent £30.5bn with outside providers in 2012-13.</p> <p>Alongside classic outsourcing expenditure, such as waste contracts, this includes capital schemes such as housebuilding and payments to financial institutions.”</p> <p>To view the full article, visit http://www.lgcplus.com/5071076.article</p>
<p>Rural Services Delivery funding announcement</p>	<p>● For information</p>	<p>The Department for Communities and Local Government (DCLG) has confirmed that a settlement of £11.5 million will be made available to rural local authorities in 2014/15 to support them in transforming services and promoting efficiencies. This funding comprises £9.5 million of Rural Delivery Services funding, and £2 million additional funding targeted at the most rural councils.</p> <p>For more information, visit https://www.gov.uk/government/publications/rural-grant-allocations-for-2014-to-2015</p>



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Appendix

Appendix 1 – 2013/14 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2013	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2014	Complete
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 2014	In progress
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 2014	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	October 2014	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2014	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 2015	TBC



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