



External Audit: Progress Report and Technical Update

Leicester City Council

Audit and Risk Committee – June 2016

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This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

● High impact

● Medium impact

● Low impact

● For info

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).

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 - June 2016

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>Planning</p>	<p>We presented our Audit Plan for 2015/16 to the Audit and Risk Committee on 23 March.</p> <p>We held a meeting on 5 April with the Director of Finance to keep abreast of current and emerging issues in respect of the accounts and value for money conclusion.</p> <p>Our work over the coming quarter will include:</p> <ul style="list-style-type: none"> • Ongoing liaison with finance staff; • 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; and • Liaising with internal audit (meeting arranged for 23 August).
<p>Financial statements</p>	<p>Since our last progress report, we have carried out our interim visit.</p> <p>Where there are selected controls that address key risks within key financial systems, and where we have determined that this is the most efficient audit approach to take, we have evaluated the design and implementation of those controls and then tested their operating effectiveness. This work includes testing of general IT controls which is still ongoing. We will report our findings once this work is completed.</p> <p>We have also obtained an understanding of the Authority's overall control environment to determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.</p> <p>At this stage there are no matters that we need to bring to your attention.</p>

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Area of responsibility	Commentary
<p>Value for Money</p>	<p>We have completed our initial VFM risk assessment. We identified two significant risks that we will follow up as part of our work:</p> <ul style="list-style-type: none"> ■ The Authority’s response to the OFSTED inspection of children’s services; and ■ Financial resilience. <p>In 2014/15 we qualified our VFM conclusion in respect of children’s services. A report to the Children’s and Young People Services Scrutiny Commission on 10 November 2015 stated that “Although there are signs of improvement in both performance and practice in some areas it is too early for much of the activity undertaken to yet to have had an impact on the quality of the service.”</p> <p>We have not yet been given an opportunity to discuss with officers their more recent follow up actions. These are likely to have a significant impact on our overall VFM conclusion for 2015/16.</p> <p>We have commenced our work on financial resilience, and at this stage we do not have any matters to report to members.</p> <p>We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260 report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p>

Technical update

Area	Level of impact	Comments	KPMG perspective
<p>CIPFA briefings on accounting for highways infrastructure assets</p>	<p>● Low</p>	<p>CIPFA has published the first of a series of briefings on highways infrastructure assets.</p> <p>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:</p> <ul style="list-style-type: none"> ■ 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. <p>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</p>	<p><i>We held a meeting with officers on 30 March. Officers have a good understanding of the issues. Whilst they have established an approach to identifying and valuing relevant highways assets, there is no formal project plan/impact assessment in place. Officers will assess their approach against the suggested approach in LAAP bulletin 100.</i></p> <p><i>The Committee may wish to seek assurances as to how the Authority is progressing with the new requirements.</i></p>
<p>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – update</p>	<p>● Low</p>	<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.</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 as to how the Authority is responding to the update to the 2015/16 Code.</i></p>

Technical update

Area	Level of impact	Comments	KPMG perspective
Capital receipts flexibility	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<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 as to how the Authority is planning to use the new flexibility.</i></p>

Technical update

Area	Level of impact	Comments	KPMG perspective
<p>Better Care Fund policy framework 2016/17</p>	<p>● Low</p>	<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 Authority is working with Leicester City CCG to provide a pooled fund. 80% of the Authority's contribution (£11.5 million out of £14.5 million) relates to adult social care.</i></p> <p><i>The Committee may wish to seek assurances as to how the Authority is developing these arrangements and whether there are measures in place to demonstrate whether the pooled fund arrangements are providing value for money.</i></p>

Technical update

Area	Level of impact	Comments
PSAA update – VFM profiles March 2016 release	<p>●</p> <p>For Information</p>	<p>Public Sector Audit Appointments Ltd (PSAA) updated its Value for Money Profiles Tool (VFM profiles) on 3 February 2016.</p> <p>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/</p>
Joint report by CIPFA and HFMA: The Better Care Fund – six months on	<p>●</p> <p>For Information</p>	<p>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.</p> <p>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.</p> <p>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</p>
Care Act first-phase reforms – local experience of implementation	<p>●</p> <p>For Information</p>	<p>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.</p> <p>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.</p> <p>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/</p>

Technical update

Area	Level of impact	Comments
<p>Cities and Local Government Devolution Act 2016</p>	<p>● For Information</p>	<p>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:</p> <ul style="list-style-type: none"> ■ 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. <p>Most of the changes under the Act, including the implementation of 'devolution' deals, will be implemented by Orders to be made under the Act.</p>

Appendix 1 - 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Done
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	Done
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	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.	October 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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