



Technical update

Incorporating the External Audit Progress Report


Leicester City Council

July 2016


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	1. 2015/16 audit deliverables	

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 information



External audit progress report

External audit 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>Planning</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>We received draft financial statements on 30 June. We are due to commence our financial statements audit visit on 8 August.</p> <p>At this stage there are no matters that we need to bring to your attention.</p>
<p>Value for Money</p>	<p>As part of the planning process, 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>Since our last progress report we met with the Strategic Director, Education and Children's Services, on 27 June to discuss recent follow up actions. We have requested further evidence to support the progress being made, and we will consider this evidence when reaching our conclusion on value for money.</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>



KPMG resources

EU Referendum Forum

What does this forum address?

Our online Referendum Forum includes content and videos relating to the implications of the exit vote such as:

- A guide to the timeline of Article 50
- The Economic Implications of Brexit (by Yael Selfin, KPMG's Chief Economist)
- People and immigration impact.

Members can register for the forum at <https://kpmgeuref.online-event.co/>

By registering you will have access to current material which will evolve in the coming weeks, and you will also receive alerts when new content is added.

We have recently held webcasts on how public services will be impacted by the EU Referendum result. These webcasts are available there, alongside other KPMG resources on Brexit, including KPMG's practical thinking and expertise in areas such as people and migration, investments, regulation and risk.

As part of our response to the leave vote in the recent EU referendum, we have appointed Karen Briggs, one of our most senior partners, in the newly created role of Head of Brexit.

Please feel free to share with your colleagues as appropriate.

Publication 'Reimagine - Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

Council cash crunch: New approach needed to find fresh income

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

Councils can save more than cash by sharing data

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

Senior public sector pensions

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

Time for the Care Act to deliver

- Momentum behind last year's Care Act risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>

Publication 'The future of cities'

We are delighted to share *The future of cities*, a report that helps local government leaders build and evaluate sustainable cities for their current and future generations.

What is *The future of cities*?

The future of cities is a global report that follows from the UK firm's thought leadership partnership with the City of Bristol and the work surrounding its European Green Capital 2015 designation. The report is broken into two modules that draw on the expertise of KPMG practitioners around the world and includes a range of case studies to ensure you find approaches relevant to your context.

The first module, *The future of cities: creating a vision*, explains the central role of vision in the success of second cities, identifying seven guiding principles to make cities more attractive. Examples are provided of various cities around the globe that are putting some of these principles into action.

The second, *The future of cities: measuring sustainability*, discusses some of the ways in which cities are being measured and how these metrics could evolve. More important, it provides practical examples of what leading cities are doing, the lessons to be learned and how these can be applied to other cities.

This content is now featured on kpmg.com/futurecities where readers can access a broader collection of reports and shorter opinion pieces from KPMG's leading thinkers on different aspects on how to create better, more sustainable places to live and work.



Technical developments

CIPFA/LASAAC briefing on Highway Network Assets

Level of impact: ● (Low)	KPMG perspective
<p>Authorities will be aware that the CIPFA/LASAAC consultation on the Draft Code of Practice on the Highways Network Asset (HNA Code) closed in April 2016.</p> <p>Following the consultation, the second in a series of Briefings on the Highways Network Asset has been made available on the CIPFA website at: http://www.cipfa.org/policy-and-guidance/local-authority-highways-network-asset.</p> <p>The Briefing covers the HNA Code consultation, the definition of the Highways Network Asset, 2015/16 reporting requirements and the Central Assurance process.</p> <p>Further guidance, and future briefings, on this topic are also available on this same webpage.</p>	<p><i>The Committee may wish to understand the progress their Authority has made in its plans to meet the new reporting requirements.</i></p>

Exercising electors' rights - 2015/16 changes

Level of impact: ● (Low)	KPMG perspective
<p>Authorities may be aware that the <i>Accounts & Audit Regulations 2015</i> have introduced new arrangements for the exercise of electors' rights, which take effect from the 2015/16 financial statements. One of the most significant changes is that the auditor is no longer required to 'call the audit' and specify a date upon which electors can meet with the auditor and ask questions about the accounts.</p> <p>Regulation 15 requires the Responsible Financial Officer (RFO), after signing and dating the draft accounts on behalf of the Authority, to commence the period for the exercise of electors' rights. This period is limited to 30 working days, and for 2015/16 must include the first 10 working days of July.</p> <p>Authorities should also note that Regulation 9(2) is clear that the authority's meeting to consider and approve the accounts should take place after the period for the exercise of electors' rights has ended. Due to the requirement in Regulation 15 for a common inspection period during July, the inspection period this year cannot end before 14 July 2016. This means that authorities should not approve and publish their accounts before 15 July 2016.</p> <p>Electors' rights are important, and the courts have in the past been critical of those who have not ensured that adequate provision for the exercise of these rights is made.</p> <p>Auditors are mindful that they may be contacted by electors or their representatives during the 30 working day inspection period. Given the limited time available, auditors will ensure that they have adequate arrangements in place during the prescribed period for receiving and identifying promptly whether any correspondence received includes formal questions under the <i>Local Audit and Accountability Act 2014</i>, and/or objections to the accounts.</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

Technical developments

DCLG consultation on pension fund investment returns

Level of impact: ● (Low)	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>

Councillors' travel expenses

Level of impact: ● (Low)	KPMG perspective
<p>HM Revenue and Customs (HMRC) are in the process of contacting Local Authorities to commence PAYE and NIC compliance reviews focusing on the historic treatment of councillors' mileage expenses. Those authorities that are unable to demonstrate they have reported payments correctly face a tax and NIC charge, with interest and potentially penalties applying.</p> <p>The previous rules</p> <p>Up until 5 April 2016, HMRC could agree that for some councillors, home is a place of work and therefore the cost of journeys to council offices could be paid free of tax and NIC. This could have been the case where, for example, councillors were required to see constituents at home. HMRC do not accept however that working from home out of choice makes home a place of work and in these cases, any expenses reimbursed in respect of travel to council offices should have been subject to tax and NIC.</p> <p>HMRC Compliance Reviews</p> <p>Those local authorities that are unable to support their historic treatment of councillor mileage expenses face a liability to unpaid PAYE, NIC, interest and potentially penalties going back four, and possibly six years. It will be important for local authorities to review their expenses records to determine how travel expenses have been treated and the processes and rationale behind that treatment. Given that different councillors can have different working patterns it will be important to review the treatment on a case by case basis.</p> <p>The new rules</p> <p>With effect from 6 April 2016, a new exemption has been introduced for councillors' travel expenses. From this date, a councillor's journey between their home and their office will be treated as 'business travel' which means that any mileage expenses reimbursed for this journey will, up to certain limits, be free of tax and NIC (subject to their home not being more than 20 miles outside the relevant authority boundary).</p> <p>How KPMG can help</p> <p>KPMG's public sector Employment Tax specialists provide practical advice on dealing with HMRC Employer Compliance reviews. We regularly assist local authorities in liaising with HMRC and staying ahead of legislative and practice developments. If you would like to speak to one of our specialists please contact your normal KPMG contact.</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

2016/17 Work Programme and Scale of Fees

Level of impact: ● (For Information)

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at <http://www.psa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees>

NAO report 'English devolution deals'

Level of impact: ● (For Information)

Published on 20 April, this report finds that devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended.

The report is available free of charge and the full version or a summary can be accessed at <https://www.nao.org.uk/report/english-devolution-deals/>



Appendix

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. The deadline has been put back to October due to technical issues with the development and testing of the Data Collection Tool by HM Treasury.	October 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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