



External Audit: Progress Report

Chesterfield Borough Council
March 2018

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Summary of work performed since the last Audit Committee	Since the last Audit Committee meeting in we have: <ul style="list-style-type: none">— Completed our interim visit which focussed on a review of core financial systems and the controls in place to prevent material error in the financial statements.— Completed our work on the Housing Benefits Subsidy Claim and issued a Qualification Letter to the Department of Work & Pensions.— Worked with the finance team to understand the work we could bring forward ahead of year end to help make the year end audit process more streamlined.— Began our data analysis work and worked with the finance team to obtain the detailed information to enable analysis in advance of year end.— Continued to liaise with managers at the Council and monitor the Council's financial position and performance and other sector developments.— prepared our update on recent relevant technical matters. The summary is attached at appendix 1 to this report and we particularly want to highlight:<ul style="list-style-type: none">— The Department for Communities and Local Government (DCLG) has issued its FAQ on the Minimum Revenue Provision (MRP) and Investment Code guidance consultations (page 4); and;— Public Sector Audit Appointments Ltd (PSAA) published its Report on the results of auditors' work 2016/17: Local government bodies on Tuesday 19th December
Summary of upcoming work	Our upcoming work ahead of the next Audit Committee includes: <ul style="list-style-type: none">— Completing our VFM work in response to the selected significant risks and other emerging areas.— Undertaking early substantive work during an additional on-site visit in March 2018 – this is to help reduce the pressure of the final accounts visit in this first year of the earlier timetable.
Actions	We ask the Audit Committee to: <ul style="list-style-type: none">— Note this progress report and technical update.

Auditor Guidance Note 1 (AGN 01) – General Guidance

Level of impact: ● (for action)	KPMG Perspective
<p>The Comptroller and Auditor General (C&AG) has issued a revised version of Auditor Guidance Note 1 (AGN 01).</p> <p>AGN 01 provides general guidance to auditors of local bodies, and sets out the overall framework for issuing guidance and for providing other support to local auditors. It includes relevant ethical requirements which those charged with governance may wish to be aware of.</p> <p>A copy of AGN 01 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-01-General-Guidance-Supporting-Local-Audit.pdf</p>	<p>Those charged with governance will wish to be aware of the requirements of the FRC’s ethical standard and the supplementary and explanatory guidance set out in AGN 01.</p>

Auditor Guidance Note 7 (AGN 07) – Auditor Reporting

Level of impact: ● (for action)	KPMG Perspective
<p>The Comptroller and Auditor General (C&AG) has issued an update version of Auditor Guidance Note 7 (AGN 07).</p> <p>AGN 07 is relevant to all bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code).</p> <p>The changes include revisions to clarify the guidance relating to:</p> <ul style="list-style-type: none">• Reporting to those charged with governance, which needs to cover the range of audit responsibilities under the Code including auditor judgements on significant risks in respect of arrangement to secure value for money• In specified circumstances, enhanced reporting requirements under ISA (UK) 700, including the reporting of key audit matters under ISA (UK) 701• Reporting considerations in relation to material uncertainty in respect of going concern• Considering when to issue the annual audit letter, including in situations where work remains outstanding, for example, on Whole of Government Accounts returns; and• Part-year reporting requirements. <p>A copy of AGN 07 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-07-Auditor-Reporting-1.pdf</p>	<p>Those charged with governance will wish to be aware of the reporting requirements of the Local Audit and Accountability Act 2014.</p>

DCLG FAQ on MRP and Investment Code guidance

Level of impact: ● (For Action)	KPMG Perspective
<p>The Department for Communities and Local Government (DCLG) has issued its FAQ on the Minimum Revenue Provision (MRP) and Investment Code guidance consultations. The consultation on the proposed changes closed on 22nd December 2017, and changes will be made after the analysis of consultation responses.</p> <p>The FAQ includes common queries from local authorities, and covers the following:</p> <ul style="list-style-type: none">• Clarification what the section on borrowing in advance of need means• Whether the proposals on MRP mean that local authorities no longer have the flexibility to decide what is prudent provision for debt• Whether local authorities should apply the current or the proposed Codes whilst making decisions during the consultation period• If the changes to the MRP guidance will be applied prospectively or retrospectively. <p>The full FAQ can be found at the following link: https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance/prudential-framework-of-capital-finance-ga</p>	<p>Members may wish to discuss with officers what, if any, is the potential impact of the consultations.</p>

Publication of Statutory Guidance for Local Authority Investments and the Minimum Revenue Provision - CIPFA

Level of impact: ● (For Information)
<p>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/</p> <p>The publication includes useful articles on:</p> <ul style="list-style-type: none">• 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.



CIPFA/LASAAC statement on the adoption of IFRS 9 Financial Instruments

Level of impact: ● (For Information)

Members may wish to be aware that the Chartered Institute of Public Finance and Accountancy Local Authority Code Board (CIPFA LASAAC) has published a statement on the adoption of IFRS 9 Financial Instruments.

IFRS 9 will be adopted in the 2018/19 local government accounting code.

Members may wish to consider the effect of the adoption of IFRS 9 on the financial statements for 2018/19.

PSAA's consultation on 2018/19 scale of fees for opted-in bodies

Level of impact: ● (For Information)

Public Sector Audit Appointments (PSAA) has published its consultation on the 2018/19 scale of fees for principal local government and police bodies that have opted into the appointing person arrangements.

The consultation is available on the PSAA website at: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/>

The consultation proposes that scale audit fees for 2018-19 should reduce by 23 per cent, compared to the fees applicable for 2017-18. More details on the proposals are set out in the consultation document.

Proposed 2018/19 scale fees for individual opted-in bodies, based on the 23 per cent reduction, are listed on the website and are accessible through the following links:

- Local government: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-local-government-bodies/>
- Local police bodies: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-police-bodies/>
- Pension fund audits: <https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-pension-funds/>

Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

Level of impact: ● (For Information)

The NAO has conducted an investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership. The investigation was prompted by concerns raised about the Partnership.

The role of Local Enterprise Partnerships (LEPs) continues to grow, and it may be noted that government has given LEPs a key role in the recently published Industrial Strategy to lead the development of Local Industrial Strategies.

Information on the UK's Industrial Strategy can be found at the following link:

<https://www.gov.uk/government/topical-events/the-uks-industrial-strategy>

The Department for Communities and Local Government (DCLG) carried out a national review of LEP governance and transparency. The review made a number of recommendations for improvement.

The review, published on 26 October 2017, with the aim of providing sufficient assurance to the Accounting Officer's and ministers that LEPs fully implement existing requirements for appropriate governance and transparency.

A full copy of the report can be found at the following link: <https://www.gov.uk/government/publications/review-of-local-enterprise-partnership-governance-and-transparency>

PSAA's report on the results of auditors' work 2016/17

Level of impact: ● (For Information)

Public Sector Audit Appointments Ltd (PSAA) published its Report on the results of auditors' work 2016/17: Local government bodies on Tuesday 19th December.

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money arrangements work, and the extent to which auditors used their statutory reporting powers.

The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies.

Compared with 2015/16, the number of principal bodies receiving an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on the accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015-16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new timetable. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

For the fourth year in a row there have been no qualified opinions on the accounts issued to date to principal bodies. The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16.

The complete report is available publically on the PSAA website: <https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

Financial sustainability of local authorities in 2018 - NAO

Level of impact: ● (For Information)

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. 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/>

CIPFA Statement on Northamptonshire County Council being the subject of a Section 114 Notice

Level of impact: ● (For Information)

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 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>

CIPFA Bulletin 01 Closure of the 2017/18 Financial Statements - CIPFA

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