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External audit progress report

Chesterfield Borough Council

March 2016

External audit progress report and technical update – March 2016

This report provides the Standards and 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 each issue.

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Progress report

This document provides the Standards and Audit Committee with a high level overview on our external audit.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.

Audit Plan 2015/16

Since the last meeting of the Standards and Audit Committee we have updated our risk assessments and will present the 2015/16 audit plan to the April 2016 meeting. We will continue to liaise with management on the significant financial and operational issues at the Authority and relevant current and emerging issues in respect of the accounts and value for money conclusion.

Accounts Audit

We undertook our interim audit work during March 2016. The planned audit work has included:

- Updating our understanding and performing walk through and controls testing on key financial systems;
- Testing of controls for significant accounts;
- Determining our approach for data and analytics testing;
- Discussing the accounting requirements for 2015/16, including relevant changes to the CIPFA guidance; and
- Discussing with management the general proposals for the closure of accounts process and our working paper requirements.

We will update the Standards and Audit Committee at its April 2016 meeting on any significant matters arising from the interim visit.

Value for Money Conclusion

We have carried out an initial risk assessment against the new criterion specified by the National Audit Office for 2015/16 onwards. Our risk assessment is ongoing and the focus of our work will be around your Medium Term Financial Planning arrangements.

We will update our risk assessment during the year and report our conclusions in the ISA260 report to the Standards and Audit Committee in September 2016.

Audit Fee update and other work

At this stage there are no changes planned to the scale audit fee of £52,445 communicated to the Council in April 2015 and in our March 2016 Audit Plan.

No other audit related or non-audit work is in progress or planned.

External audit progress report – March 2016 (continued)

Actions	We ask the Standards and Audit Committee to: <ul style="list-style-type: none"> ▪ NOTE this progress report. 		
Contacts	The key contacts in relation to our audit are:		
	<p style="text-align: center;"> Tony Crawley, Director tony.crawley@kpmg.co.uk 0116 256 6067 </p>	<p style="text-align: center;"> Helen Brookes, Manager helen.brookes@kpmg.co.uk 07919 228632 </p>	<p style="text-align: center;"> Kay Meats, Assistant Manager kay.meats@kpmg.co.uk 07824 821375 </p>



KPMG resources

Area	Comments
Local Government Technical Update – February 2016	<p>We once again ran a series of local government accounts workshops for key members of our clients' finance teams. The workshops were focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2015/16 close down and statement of accounts. The workshops were led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh. Representatives from your finance team attended one of the events. The agenda included:</p> <ul style="list-style-type: none"> • Review of 2014/15; • Key Issues and developments for 2015/16 and Longer term developments; and • Tax and Pensions specialists.
Early Accounts Closure Workshop – March 2016	<p>We held a workshop for our local Government clients to help them as part of their planning for the bringing forward of the accounts closure deadline for the 2017/18 Accounts. We will ensure that members of your finance team are provided with copies of the course materials and outputs. The workshop agenda covered:</p> <ul style="list-style-type: none"> • Background to the changes and the new statutory requirements; • Presentation by practitioners from a County Council and District Council who had already successfully brought forward their closure dates; • An interactive session to identify the barriers to early closure and the possible solutions; • Further insights on the arrangements for early closure in 2014/15 at Oldham and Westminster Councils; and • The audit requirements.

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Technical update

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Narrative statements	● Low	<p>Authorities will need to be aware that the <i>Accounts and Audit Regulations 2015</i> require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states:</p> <p><i>Narrative statements</i></p> <ol style="list-style-type: none">1) <i>A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.</i>2) <i>A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.</i> <p>Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge.</p> <p>The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's <i>Code of Practice on Local Authority Accounting</i> (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.</p>	<i>The Committee may wish to seek assurances that the Authority has arrangements in place to meet the new requirements</i>

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Exercise of public rights	<p style="text-align: center;">● Low</p>	<p>Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards.</p> <p>Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced.</p> <p>Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place <i>until after the conclusion of the period for the exercise of public rights</i>.</p> <p>As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish them before 15 July 2016.</p>	<p><i>The Committee may wish to seek assurances that the necessary arrangements are in place for their Authority.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Consultation on 2016/17 audit work programme and scales of fees</p>	<p style="text-align: center;">● Low</p>	<p>Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/17 proposed work programme and scales of fees.</p> <p>The consultation sets out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/</p> <p>There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.</p> <p>Following completion of the Audit Commission’s 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission’s retained earnings.</p> <p>PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly.</p> <p>The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.</p> <p>The consultation closed on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.</p>	<p><i>The Committee should be aware of the consultation proposals.</i></p>

Area	Level of impact	Comments	KPMG perspective
<p>New local audit framework</p>	<p>● Medium</p>	<p>The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies.</p> <p>CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established.</p> <p>NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.</p>	<p><i>Members may wish to review the guidance and begin initial discussions with colleagues about the approach the Authority may wish to adopt.</i></p>

Area	Level of Impact	Comments
<p>Greater Manchester Combined Authority</p>	<p>● For Information</p>	<p>Greater Manchester Combined Authority (GM) has pioneered the concept of local devolution within England. “Devo Manc” encompasses a broad range of proposals to address the challenges and opportunities GM is facing:</p> <p>Health and Social Care</p> <p>Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and Sustainable Plan for health and social care.</p> <p>As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested.</p> <p>GM proposals</p> <p>In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region:</p> <ul style="list-style-type: none"> ■ Investment in transport infrastructure ■ New funding mechanisms to support site remediation and infrastructure provision ■ Making better use of Social Housing Assets to support growth ■ Locally led low carbon ■ A scaled-up GM Reform Investment Fund ■ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance ■ Fundamental review of the way services to children are delivered ■ Research and innovation funding ■ Investment in integrated business support to drive growth and productivity ■ Reform of the New Homes Bonus ■ Further employment and skills reform ■ GM approach to data sharing across public agencies ■ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax <p>All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.</p>

Area	Level of Impact	Comments
<p>Public Sector Audit Appointments Ltd (PSAA) – VFM profiles update</p>	<p>● For Information</p>	<p>Public Sector Audit Appointments Ltd (PSAA) maintain the Value for Money profiles tool (VFM profiles) initially developed by the Audit Commission. The profiles were updated on 1 October 2015.</p> <p>The VFM profiles planned budget section now contains the 2015/16 data sourced from the Department for Communities and Local Government – General Fund Revenue Account Budget (RA). The values are adjusted with gross domestic product (GDP) deflators from the HM Treasury's publication in June 2015. The profiles can be accessed through the PSAA's homepage at http://www.psaa.co.uk/</p> <p>Other sections of the VFM profiles have also been updated with the latest data values for the following data sources:</p> <ul style="list-style-type: none"> ■ Inequality gap (2012/13) ■ Fuel poverty (2013) ■ Climate change (2013) ■ Alcohol related admissions (2013/14) ■ Mid-year population estimates (2014) ■ Chlamydia testing (2014) ■ Participation in education or work-based learning (2014) ■ Housing benefit speed of processing (2014/15) ■ CT and NNDR collection rates (2014/15) ■ NHS health checks (2014/15) ■ Planning applications (Quarter 4 2014/15) ■ Delayed transfers of care (Quarter 1 2015) ■ Under 5 provision (2015)

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Appendix

Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	To be presented in April 2016
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	If Required	TBC
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.	September 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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