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External audit progress report and technical update

Nottinghamshire County Council and Pension Fund

November 2015

External audit progress report and technical update – November 2015

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

Progress report

External audit progress report – November 2015

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
Financial statements	We have recently discussed the outcome of the 2014/15 audit with the Senior Accountant and Service Director – Finance and Procurement (S151 Officer). We are in the progress of planning the 2015/16 audit and we will be holding further discussions with officers of the Authority to identify the key issues that will contribute to our planning approach and to obtain a general update on the Authority. Our next liaison meeting is on 11 December 2015.
Value for Money	The National Audit Office is responsible for the Code of Audit Practice and supporting guidance, and it has just closed a consultation process on the future VFM audit approach. We will update officers and this committee once further information is available on the revised Value for Money Guidance.
Other work	We are currently finalizing our review of your Teachers Pensions Agency return. We expect to meet the deadline of 30 November 2015.

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Area	Comments
Governance arrangements work over the Better Care Fund.	The £3.8 billion Better Care Fund (BCF) (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 Spending Round, to ensure a transformation in integrated health and social care. The BCF is a single pooled budget to support health and social care services to work more closely together in local areas. The BCF not only brings together NHS and Local Government resources, but also provides a real opportunity to improve services and value for money, protecting and improving social care services by shifting resources from acute services into community and preventative settings. The governance arrangements for the BCF will therefore have to meet the requirements of all partners to achieve economy, efficiency and effectiveness in their use of resources. Each partner will also need to satisfy itself that the pooled budget complies with the requirements of its appropriate code of governance and annual governance reporting guidance. Each partner must also satisfy itself that all other regulatory requirements are met – for example, that discrete funding streams are only spent appropriately at a local level. Partners therefore need to make arrangements to ensure that that is happening. Additionally, there will be a requirement for an audit certificate on this expenditure and arrangements need to be in place to ensure appropriate records are kept to provide sufficient audit assurance. With this in mind, CCG governing bodies and Local Authority Executives are now considering whether governance arrangements and structures are fit for purpose and will ensure the effective management of the BCF and the pace of development and implementation. We are currently carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry: ■ Governance arrangements. ■ Engagement and communication. ■ Hosting arrangements. ■ Signed agreement. ■ Performance management. ■ Financial management. For more information, please contact Sayeed Haris, 0116 256 6061, sayeed.haris@kpmg.co.uk.

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Area	Comments
Better Care Fund Support Programme	The Better Care Fund Support Programme aims to help areas to overcome the barriers to the successful implementation of the Better Care Fund plans across England in 2015/16. KPMG is one of the partners that successfully bid to deliver the programme, on behalf of NHS England, alongside the Social Care Institute for Excellence ('SCIE'), PPL Consulting and the Berkeley Partnership. The focus has been on practical implementation support to deliver better care for the local population. Support has included: ■ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them; ■ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development); ■ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and ■ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners. A number of 'How to guides' have been developed on how to: ■ lead and manage Better Care implementation: www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf ■ bring budgets together and use them to develop coordinated care provision: www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf ■ work together across health, care and beyond: www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics: ■ Joint working; ■ Section 75 Arrangements – Pooled and unpooled budgets; and ■ Data sharing: More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at www.scie.org.uk/about/partnerships-better-care.asp For more information, please contact Sayeed Haris, 0116 256 6061, sayeed.haris@kpmg.co.uk.

KPMG resources

Area	Comments
KPMG publication titled: Value of Audit – Perspectives for Government	**What does this report address?** This report builds on the *Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed. Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future. **What are the key issues?** ▪ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ▪ The importance of trust and independence of government across different markets. ▪ How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making. ▪ The importance of technology integration and the issues that need to be addressed for successful implementation ▪ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

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Technical update

Area	Level of impact	Comments	KPMG perspective
New local audit framework	Medium	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. 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. 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.	***We understand guidance is being prepared by CIPFA on the request of the NAO.*** ***We will also be preparing a briefing note for clients.***

Area	Level of impact	Comments	KPMG perspective
Reporting developments – Infrastructure assets	Medium	CIPFA/LASAAC, the group that produce the *Code of Practice for Local Authority Accounting*, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015. The changes require local authorities to recognise the value of all transport infrastructure assets using the depreciated replacement cost method, i.e. the cost required to replace the asset with a new replacement depreciated over the life of the existing asset. Transport infrastructure assets include: ■ roads, bridges, roundabouts and traffic calming measures; ■ footways, footpaths and cycle tracks; ■ tunnels and underpasses; and ■ water supplies and drainage systems, as they support the assets identified above. Even non-highway authorities will be affected to the extent that footways etc are material to their accounts. Railway assets are not currently included in the proposals, although it is possible that these may be included in subsequent periods. CIPFA has issued a *Code of Practice on Transport Infrastructure Assets* which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website. Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015. The Whole of Government Accounts submission includes unaudited data on transport infrastructure assets. 2013/14 data indicates assets of over £400 billion will be accounted for on local authority balance sheets. However, only 93% of authorities provided this information, and of these less than 70% used actual inventory data to complete the return. This indicates that the sector faces a significant challenge in accurately identifying the assets it owns and will have to account for.	***The Committee may wish to enquire of officers whether a project plan has been developed to address the requirements and review progress against this on a regular basis.***

Area	Level of Impact	Comments	KPMG perspective
The Local Government Association's 2015 Spending Review submission	**Medium**	In June 2015, the Local Government Association (LGA) set out proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament. The submission focusses on four core issues originally highlighted in A Shared Commitment, published in early 2015. The LGA hopes that local government can work with central government to balance the nation's books while improving public services and the local economic environment by delivering new, transformed and high-quality local services while at the same time reducing costs to the public sector. The LGA believes the Spending Review should: ■ enable wider integration of social care and health services to deliver savings and improve outcomes. This requires the annual £700 million funding gap in social care services to be closed and a transformation fund worth £2 billion in each year of the Spending Review period be created to allow new ways of working to become commonplace. The Spending Review should also implement a single place-based budget for delivering all local services through a Local Public Services Fund as part of at least five devolution deals; ■ promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. The LGA is calling for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including: – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ help councils adequately resource and deliver high quality public services by transforming the business rate mechanism and providing a four year local government finance settlement; and ■ help councils focus on driving efficiency and value for money through an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period.	***The Committee may wish to seek assurances that the impact for their Authority is understood.***

Area	Level of Impact	Comments	KPMG perspective
NAO report – Local Government New Burdens	Low	This report from the NAO considers how well central government has applied the New Burdens Doctrine for Local Authorities. This sets out how the government would ensure that new requirements that increased local authorities' spending did not lead to excessive council tax increases. The focus of this report is more on central government but includes findings that may also be of interest to local government bodies. The report is available from the NAO website at www.nao.org.uk/report/local-government-new-burdens/	***The Committee may wish to review the report to understand what impact this could have at the local government level***

Area	Level of Impact	Comments	KPMG perspective
NAO report – Care Act first-phase reforms	Low	The NAO's report examines the first phase of the Department of Health's new approach to adult social care, finding that it has been implemented well, but places new responsibilities on local authorities whose core funding is being significantly reduced. This could result in their having to delay or reduce services in the short term if demand for care exceeds expectations, presenting a risk to VFM which needs to be managed. Key findings within the report include: ■ The *Care Act* will increase demand for assessments and services at a time when local authority provision has been falling and the number of people in need is rising. ■ The Department's innovative joint governance with the sector has provided support to implement this challenging legislation. It has provided guidance materials and will give extra support to local authorities. ■ The Department's tight time frame for the sector to act on final guidance and funding allocations has inhibited local implementation planning in some areas. ■ Despite the challenging timetable, of local authorities with adult social care responsibilities, 99% were confident that they would be able to carry out the Care Act reforms from April 2015. However, it will take longer to change the culture. ■ The Department might have underestimated the demand for assessments and services for carers. ■ The Department has learned from the problems it encountered in modelling the cost of Phase 1 and has improved its approach for Phase 2. ■ There is variation in the extent to which individual councils might have been over or underfunded. ■ A significant proportion of the funding which the Department is providing for the Care Act's new burdens is not new money. The Department assumes that £174 million (40%) of Care Act funding will come through the Better Care Fund, from money previously allocated to clinical commissioning group budgets and existing local authority capital grants. ■ If costs exceed expectations, pressures will fall first on individual local authorities. The Department may not have sufficient information and does not have a contingency fund to avoid impacts on services. The full report is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms/	***The Committee may wish to seek assurances the issues raised in the report are understood and plans in place address the likely impact at their Authority.***

Area	Level of Impact	Comments
Proposed changes to business rates and core grant	For Information	The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall. The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that “the way this country is run is broken”. Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved. The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Areas that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at 2p on the rate. The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

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	January 2016	Not yet due
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	Not yet due
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	Not yet due
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	Not yet due
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	Not yet due

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