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# External audit technical update

**Leeds City Council**

January 2016

This report 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

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# KPMG resources

Area	Comments
<p><b>Governance arrangements work over the Better Care Fund.</b></p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We are currently carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry:</p> <ul style="list-style-type: none"> <li>■ Governance arrangements.</li> <li>■ Engagement and communication.</li> <li>■ Hosting arrangements.</li> <li>■ Signed agreement.</li> <li>■ Performance management.</li> <li>■ Financial management.</li> </ul>

Area	Comments
<p><b>KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years</b></p>	<p>Without a radical programme of house building, average house prices in England could double in just ten years to £446,000 at current prices, according to research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 at current prices by 2034 if current trends continue.</p> <p>The research from KPMG and Shelter also reveals that more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own.</p> <p>The warning comes in a landmark report from KPMG and Shelter outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament. With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt.</p> <p>The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market. It calls on politicians to commit to an integrated range of key measures, including:</p> <ul style="list-style-type: none"> <li>■ giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land;</li> <li>■ unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed;</li> <li>■ introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building;</li> <li>■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and</li> <li>■ fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need.</li> </ul> <p>To read the report, visit <a href="http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need-programme-2015.aspx">www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need-programme-2015.aspx</a></p>

Area	Comments
<b>Better Care Fund Support Programme</b>	<p>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.</p> <p>The focus has been on practical implementation support to deliver better care for the local population. Support has included:</p> <ul style="list-style-type: none"> <li>■ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them;</li> <li>■ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development);</li> <li>■ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and</li> <li>■ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners.</li> </ul> <p>A number of 'How to guides' have been developed on how to:</p> <ul style="list-style-type: none"> <li>■ lead and manage Better Care implementation: <a href="http://www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf">www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf</a></li> <li>■ bring budgets together and use them to develop coordinated care provision: <a href="http://www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf">www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf</a></li> <li>■ work together across health, care and beyond: <a href="http://www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf">www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf</a></li> </ul> <p>The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics:</p> <ul style="list-style-type: none"> <li>■ Joint working;</li> <li>■ Section 75 Arrangements – Pooled and unpooled budgets; and</li> <li>■ Data sharing;</li> </ul> <p>More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at <a href="http://www.scie.org.uk/about/partnerships-better-care.asp">www.scie.org.uk/about/partnerships-better-care.asp</a></p>

Area	Comments
<p><b>KPMG publication titled: Value of Audit – Perspectives for Government</b></p>	<p><b>What does this report address?</b></p> <p>This report builds on the <i>Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting</i> – 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.</p> <p>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.</p> <p><b>What are the key issues?</b></p> <ul style="list-style-type: none"> <li>■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.</li> <li>■ The importance of trust and independence of government across different markets.</li> <li>■ How government audits can provide accountability thereby enhancing the government’s controls and instigating decision-making.</li> <li>■ The importance of technology integration and the issues that need to be addressed for successful implementation</li> <li>■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits</li> </ul> <p>The <i>Value of Audit: Perspectives for Government</i> report can be found on the KPMG website at <a href="https://home.kpmg.com/xx/en/home/insights.html">https://home.kpmg.com/xx/en/home/insights.html</a></p> <p>The <i>Value of Audit: Shaping the Future of Corporate Reporting</i> can be found on the KPMG website at <a href="http://www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx">www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx</a></p>



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# Technical update



Area	Level of impact	Comments	KPMG perspective
<p><b>New local audit framework</b></p>	<p>● <b>Medium</b></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>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>We understand guidance is being prepared by CIPFA on the request of the NAO.</i></p>

Area	Level of impact	Comments	KPMG perspective
<b>Reporting developments – Infrastructure assets</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Medium</b></p>	<p>CIPFA/LASAAC, the group that produce the <i>Code of Practice for Local Authority Accounting</i>, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17.</p> <p>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:</p> <ul style="list-style-type: none"> <li>■ roads, bridges, roundabouts and traffic calming measures;</li> <li>■ footways, footpaths and cycle tracks;</li> <li>■ tunnels and underpasses; and</li> <li>■ water supplies and drainage systems, as they support the assets identified above.</li> </ul> <p>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.</p> <p>CIPFA have issued a <i>Code of Practice on Transport Infrastructure Assets</i> which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website.</p> <p>Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these.</p> <p>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.</p>	<p><i>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.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p><b>NAO report – Care Act first-phase reforms</b></p>	<p>● Low</p>	<p>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.</p> <p>Key findings within the report include:</p> <ul style="list-style-type: none"> <li>■ The <i>Care Act</i> 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.</li> <li>■ 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.</li> <li>■ 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.</li> <li>■ 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.</li> <li>■ The Department might have underestimated the demand for assessments and services for carers.</li> <li>■ The Department has learned from the problems it encountered in modelling the cost of Phase 1 and has improved its approach for Phase 2.</li> <li>■ There is variation in the extent to which individual councils might have been over or underfunded.</li> <li>■ 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.</li> <li>■ 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.</li> </ul> <p>The full report is available from the NAO website at <a href="http://www.nao.org.uk/report/care-act-first-phase-reforms/">www.nao.org.uk/report/care-act-first-phase-reforms/</a></p>	<p><i>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.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<b>NAO report – Local Government New Burdens</b>	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<p>This report from the NAO considers how well central government has applied the New Burdens Doctrine. 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.</p> <p>The report is available from the NAO website at <a href="http://www.nao.org.uk/report/local-government-new-burdens/">www.nao.org.uk/report/local-government-new-burdens/</a></p>	<p><i>The Committee may wish to review the report to understand what impact this could have at the local government level</i></p>

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<p><b>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015</b></p>	<p>● Low</p>	<p>With effect from 1 April 2015, certain provisions of the <i>Local Audit and Accountability Act 2014</i> (LAAA 2014) came into force and are applicable to auditors’ work for the year 2015/16. Whilst the <i>Audit Commission Act 1998</i> is transitionally saved for audit work on 2014/15, insofar as auditors are engaged in planning work for 2015/16, or possibly considering public interest reports (PIRs) to be made during 2015/16, they need to be aware of the provisions of LAAA 2014 that are already in force.</p> <p>Provisions affecting auditors’ work with effect from 1 April 2015 are:</p> <p><b>1) New duty to publish PIRs on audited bodies’ websites</b></p> <p>Under the new audit regime, there is an emphasis on the publication of relevant information on the relevant authority’s website. The following provisions are relevant to auditors carrying out work on 2015/16 if they decide to issue a public interest report during the audit.</p> <p>Under Schedule 7 LAAA 2014, the following matters must be published on the relevant authority’s website (if it has one):</p> <ul style="list-style-type: none"> <li>■ PIRs (relating to the relevant authority or a connected entity);</li> <li>■ notice of a meeting to consider a PIR/written recommendation; and</li> <li>■ notice summarising those decisions approved by the auditor as a result of consideration of the PIR/recommendation.</li> </ul> <p>Where the relevant authority does not have a website, it is instead generally required to make the relevant publication “in such manner as it thinks is likely to bring the notice or report to the attention of persons who live in its area”. This could be, for example, in a local newspaper (as was required in certain cases under the previous legislation).</p>	<p><b><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></b></p>

Area	Level of Impact	Comments	KPMG perspective
<p><b>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</b></p>	<p>● <b>Low</b></p>	<p><b>2) Prohibition on disclosure</b></p> <p>The prohibition against disclosure that was previously to be found in section 49 of the <i>Audit Commission Act 1998</i> has been repealed and replaced by provisions in Schedule 11 of LAAA 2014. This change has not been transitionally introduced and auditors and local authority bodies need to be aware that this applies to all audits, irrespective of the year. Thus, any reference to the prohibition against disclosure needs to be to Schedule 11 and not section 49. There are no material differences between the two sets of provisions.</p> <p><b>3) Connected entities</b></p> <p>LAAA 2014 introduces a new concept into the audit regime, “connected entities”. Connected entities are bodies that are separate to the relevant authority, but are associated with the authority in such a manner that requires the authority to record financial information relating to the entity in its accounts.</p> <p>The full definition of “connect entities” is set out in paragraph 8 of Schedule 4 LAAA 2014.</p> <p>For the purposes of this Act, an entity (“E”) is connected with a relevant authority at any time if E is an entity other than the relevant authority and the relevant authority considers that, in accordance with proper practices in force at that time:</p> <ul style="list-style-type: none"> <li>■ the financial transactions, reserves, assets and liabilities of E are to be consolidated into the relevant authority's statement of accounts<sup>1</sup> for the financial year in which that time falls;</li> <li>■ the relevant authority's share of the financial transactions, reserves, assets and liabilities of E is to be consolidated into the relevant authority's statement of accounts for that financial year; or</li> <li>■ the relevant authority's share of the net assets or net liabilities of E, and of the profit or loss of E, are to be brought into the relevant authority's statement of accounts for that financial year.</li> </ul>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p><b>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</b></p>	<p>● <b>Low</b></p>	<p><b>3) Connected entities (continued)</b></p> <p>Authorities have a number of duties in relation to their connected entities under LAAA 2014 beyond those which are expanded on below:</p> <ul style="list-style-type: none"> <li>■ Auditors have a right to access documents (at all reasonable times) relating to connected entities, as well as those relating to the “parent” relevant authority. The auditor can inspect, copy or take away documents. The auditor can also require people who are in possession or are accountable for the document (or have been in the past) to provide the auditor with any information or explanation that may be needed, and can require a meeting with such persons. Where a document is stored electronically, the auditor can require assistance from the relevant person at the connected entity or relevant authority in accessing the document. The connected entity must provide the auditor with such facilities and information as are reasonably required to carry out the audit functions.</li> <li>■ The right to information and explanation, or to require a meeting, extends in relation to connected entities to: <ul style="list-style-type: none"> <li>– any persons elected or appointed to an entity;</li> <li>– any employee of the entity; and</li> <li>– an auditor of the accounts of the entity.</li> </ul> </li> </ul> <p>Many of the provisions on PIRs and written recommendations in Schedule 7 apply to connected entities. Accordingly, auditors must consider whether a PIR should be made on any matter coming to their attention during the audit and relating to the authority and/or a connected entity. Similarly, an auditor may make a written recommendation to a relevant authority relating to a connected entity.</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<b>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</b>	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<p><b>4) Power to call for information: exception for legally professionally privileged information</b></p> <p>Section 22(12) LAAA 2014 clarifies that the auditor’s right to information and documents cannot be used to compel disclosure of legally privileged information. If a person would be entitled to refuse to produce documents in legal proceedings in reliance on the doctrine of legal professional privilege, they are equally entitled to refuse to provide the relevant information or documents to the auditor. This is a notable new provision and auditors will need to bear this in mind in requesting sight of an audited body’s own legal advice. Any provision of such will be voluntary and cannot be compelled.</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>



Area	Level of Impact	Comments	KPMG perspective
<p><b>NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals</b></p>	<p>● Low</p>	<p>Wave 1 City Deals encouraged cities to develop capacity to manage devolved funding and increased responsibility. The report finds it is too early to tell whether the deals will have any overall impact on growth, and that the government and the cities could have worked together in a more structured way to agree a consistent approach to evaluating the deals’ impact. There have been early impacts from some of the individual programmes agreed in the deals. It has, however, taken longer for cities and departments to implement some of the programmes that required more innovative funding or assurance mechanisms.</p> <p>The government has set out its ambition to continue devolving responsibility for local growth to cities and other local places. The report highlights that both the government and local places can learn from the experience of Wave 1 City Deals to manage devolution to local places effectively.</p> <p>The report is available on the NAO website <a href="http://www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/">www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/</a></p>	<p><i>The Committee may wish to seek assurances how their Authority fit into the emerging City Deals.</i></p>

Area	Level of Impact	Comments
<b>Care Act first-phase reforms – local experience of implementation</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>For Information</b></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 <a href="http://www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/">www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/</a></p>



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