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# External audit progress report and technical update

**Leeds City Council**

June 2016

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

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# 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.**

### Financial Statements interim audit

Audit work was completed through our onsite visit in March 2016.

We are pleased to report that our work progressed in accordance with our Audit Plan as shared with you in February 2016.

We held meetings with relevant officers and refreshed our understanding of systems and processes.

We performed control evaluation of key financial systems in order to:

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and the risk of accounts being misstated

Through our interim audit procedures nothing has come to our attention which we would be required to communicate to Audit Committee.



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# KPMG resources

Area	Comments
<p><b>KPMG Local Government Budget Survey</b></p>	<p>KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including:</p> <ul style="list-style-type: none"> <li>■ The content of budget monitoring reports;</li> <li>■ Savings plans;</li> <li>■ Invest-to-save projects</li> <li>■ The type of savings being made;</li> <li>■ Assumptions underlying the medium term financial plan; and</li> <li>■ Reserve movements.</li> </ul> <p>The Survey also poses questions for management and members to consider when reviewing their budget setting and budget monitoring processes.</p> <p>For more information, and a copy of the report, please contact Rob Walker (Audit Manager) on 07912 763085 or <a href="mailto:rob.walker@kpmg.co.uk">rob.walker@kpmg.co.uk</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
<b>New local audit framework</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><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>CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at <a href="http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf">www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf</a> 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 CIPFA guidance and begin initial discussions with colleagues about the approach the Authority may wish to adopt.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p><b>The LGA's 2015 Spending Review submission</b></p>	<p>● Medium</p>	<p>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.</p> <p>The submission focusses on five core issues originally highlighted in <i>A Shared Commitment</i> (<a href="http://www.local.gov.uk/documents/10180/6869714/L15-252+Spending+Review_WEB_new.pdf/3101e509-1e22-4c26-91ac-8fd8a953aba5">www.local.gov.uk/documents/10180/6869714/L15-252+Spending+Review_WEB_new.pdf/3101e509-1e22-4c26-91ac-8fd8a953aba5</a>), 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.</p> <p>The LGA believes the Spending Review should:</p> <ul style="list-style-type: none"> <li>■ 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;</li> <li>■ 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: <ul style="list-style-type: none"> <li>– the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21</li> <li>– a central-local partnership to deliver effective and targeted skills and employment initiatives</li> <li>– unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament.</li> </ul> </li> <li>■ 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</li> <li>■ 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.</li> </ul>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

Area	Level of impact	Comments	KPMG perspective
<b>DCLG consultation on pension fund investment reform</b>	<p style="text-align: center;">● Low</p>	<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 <a href="http://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance">www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</a></p> <p>The outcome of the consultation will be published here: <a href="https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme">https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme</a></p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>
<b>Accounts and Audit Regulations 2015 – Narrative statements</b>	<p style="text-align: center;">● Low</p>	<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"> <li>1) <i>A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.</i></li> <li>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></li> </ol> <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>	<p><i>The Committee may wish to seek assurances that their authorities have arrangements in place to meet the new requirements.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<b>Accounts and Audit Regulations 2015 – Exercise of public rights</b>	<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 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>
<b>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – update</b>	<p style="text-align: center;">● Low</p>	<p>CIPFA/LASAAC has issued an update to the <i>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.</p> <p>Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.</p> <p>The Code update also includes amendments as a result of legislative changes and particularly the <i>Accounts and Audit Regulations 2015</i> for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.</p>	<p><i>The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<b>Capital receipts flexibility</b>	<p style="text-align: center;">● Low</p>	<p>The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary:</p> <ul style="list-style-type: none"> <li>■ the flexibility is available from 1 April 2016 to 31 March 2019;</li> <li>■ only capital receipts generated during that period can be used for the flexibility;</li> <li>■ the Secretary of State’s direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period;</li> <li>■ authorities will not be allowed to borrow to fund revenue expenditure on service reform; and</li> <li>■ authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility.</li> </ul> <p>A copy of the draft guidance can be found at <a href="http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf">www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf</a></p>	<p><i>The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.</i></p>
<b>Better Care Fund policy framework 2016/17</b>	<p style="text-align: center;">● Low</p>	<p>The Department of Health, in conjunction with the Department for Communities and Local Government, has recently published <i>2016-17 Better Care Fund planning guidance</i>.</p> <p>The guidance introduces a number of changes, requiring local clinical commissioning groups (CCGs), councils and providers to establish risk sharing arrangements to fund unplanned emergency admissions. Local areas will also have to agree to ‘stretching’ local targets for cutting delayed transfers of care supported by an action plan.</p> <p>The guidance can be found here: <a href="http://www.gov.uk/government/publications/better-care-fund-how-it-will-work-in-2016-to-2017">www.gov.uk/government/publications/better-care-fund-how-it-will-work-in-2016-to-2017</a></p>	<p><i>The Committee may wish to seek assurances how their Authority is developing these arrangements.</i></p>

Area	Level of Impact	Comments
<p><b>Greater Manchester Combined Authority</b></p>	<p>● <b>For Information</b></p>	<p>Greater Manchester Combined Authority (GMCA) 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><b>Health and Social Care</b></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><b>GM proposals</b></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"> <li>■ Investment in transport infrastructure</li> <li>■ New funding mechanisms to support site remediation and infrastructure provision</li> <li>■ Making better use of Social Housing Assets to support growth</li> <li>■ Locally led low carbon</li> <li>■ A scaled-up GM Reform Investment Fund</li> <li>■ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance</li> <li>■ Fundamental review of the way services to children are delivered</li> <li>■ Research and innovation funding</li> <li>■ Investment in integrated business support to drive growth and productivity</li> <li>■ Reform of the New Homes Bonus</li> <li>■ Further employment and skills reform</li> <li>■ GM approach to data sharing across public agencies</li> <li>■ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax</li> </ul> <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
<b>Joint report by CIPFA and HFMA: <i>The Better Care Fund – six months on</i></b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>For Information</b></p>	<p>Authorities may wish to be aware of a recent joint report by CIPFA and the Healthcare Financial Management Association (HFMA) examining the progress that has been made six months into the implementation of Better Care Fund arrangements.</p> <p>The report is based on the results of an HFMA and CIPFA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites.</p> <p>The report can be found on the CIPFA website at <a href="http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape">www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape</a></p>
<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 2015 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>

Area	Level of Impact	Comments
<p><b>Proposed changes to business rates and core grant</b></p>	<p>● <b>For Information</b></p>	<p>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.</p> <p>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”.</p> <p>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, he said</p> <p>The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities 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 £0.02 on the rate.</p> <p>The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.</p>
<p><b>Cities and Local Government Devolution Act 2016</b></p>	<p>● <b>For Information</b></p>	<p>Authorities will wish to note that the Cities and Local Government Devolution Act 2016 received Royal Assent on 28 January 2016. The Act provides the enabling legislation to:</p> <ul style="list-style-type: none"> <li>■ allow for the election of mayors for a combined authority area;</li> <li>■ allow for the devolution of functions, including transport, health, skills, planning and job support; and</li> <li>■ provide a power to establish sub-national transport bodies which will advise the Government on strategic schemes and investment priorities in their own area.</li> </ul> <p>Most of the changes under the Act, including the implementation of ‘devolution’ deals, will be implemented by Orders to be made under the Act.</p>





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# Appendix

## Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2015	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	Completed
<b>Interim</b>			
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.	March 2016	Completed
<b>Substantive procedures</b>			
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
<b>Completion</b>			
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.	November 2016	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC



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