

# External audit progress report and technical update

**Rutland County Council -Audit  
And Risk Committee**  
January 2016

This report provides the Audit and Risk Committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights for your attention some of the 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 and Risk 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
<b>Audit Certificate 2014/15</b>	<p>We informed the Committee in September 2015 that we planned to withhold the audit certificate for the 2014/15 audit. This was to allow us more time to consider the issues connected with the Oakham North S106 Agreement, in the context of our responsibilities under the Act, and gather any necessary additional information before deciding what action, if any, we were required to take. We expect to share our draft report with the Chief Executive before the end of January 2016 and will provide the Committee with a verbal update at the meeting.</p>
<b>2015/16 Audit</b>	<p>We are updating our risk assessments and completing our detailed planning to determine our audit plan. We expect to issue the draft detailed audit plan to officers before the end of January 2016 and in line with auditing standards, we will present it to the next meeting of the Committee.</p> <p><b>Financial statements audit</b></p> <p>A significant area of focus will continue to be the work required to give the audit opinion on the accounts. Our plan will include our response to any issues identified through our risk assessment regarding:</p> <ul style="list-style-type: none"> <li>the accounting requirements for 2015/16, including relevant changes to the CIPFA guidance; and</li> <li>the closure of accounts process generally and our working paper requirements.</li> </ul> <p>In March 2016 we expect to carry out our interim visit to assess the adequacy of processes and systems in operation for the generation of the financial statements.</p> <p><b>Value for Money Conclusion</b></p> <p>We will also carry out our VFM conclusion risk assessment and assess your arrangements against the <u>new</u> criterion specified by the National Audit Office (issued in November 2015) for 2015/16 onwards. The assessment will now require us to conclude whether <i>in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people</i>. The NAO's guidance sets out sub-criteria that we need to consider in forming our conclusion. The sub-criteria cover the Council's arrangements for:</p> <ul style="list-style-type: none"> <li><i>Informed decision making</i></li> <li><i>Sustainable resources deployment; and</i></li> <li><i>Working with partners and other third parties.</i></li> </ul> <p>We have included a link to the new guidance in our technical update included with this report. We will discuss this new criterion, and the additional information required, with managers as part of the detailed audit planning work.</p>



## External audit progress report – January 2016 (continued)



Area of responsibility	Commentary
<b>2015/16 Audit (continued)</b>	<p><b>Other work</b></p> <p>We will continue to liaise with Internal Audit, and consider your assurance frameworks and your response to issues you identify throughout the year. We will review your 2015/16 Annual Governance Statement for consistency with our understanding of your arrangements and issues identified.</p> <p>There are no significant audit concerns that we need to raise with the Audit and Risk Committee at this stage in relation to the audit of the accounts or the VFM conclusion from the planning work we have carried out to date.</p>
<b>Certification of claims and returns</b>	<p>We have issued our Annual Grant Claims and Returns Report for 2014/15 and there are no significant points that we need to bring to the Audit and Risk Committee's attention in this report.</p> <p>No additional grant certification work has been mandated for 2015/16 and we expect the programme of work to again focus on the Housing Benefit claim and the Teacher's Pension return. These returns will be certified by the November 2016 deadline..</p>




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# Technical update

Area	Level of Impact	Comments	KPMG perspective
<b>CIPFA Survey of Chief Financial Officers</b>	 For information	<p>Confidence in councils' ability to keep delivering services amid ongoing government budget cuts has continued to fall sharply among chief financial officers (CFOs), according to a survey by the CIPFA published in November 2015. The survey found that:</p> <ul style="list-style-type: none"> <li>• 49% were less confident in their ability to deliver services for 2016/17 than a year ago. The proportion of respondents who were less confident has increased from 41% of CFOs last year for 2015/16 and 27% for 2014/15.</li> <li>• 56% were less confident over their organisation's overall financial position for the next financial year (2016/17) – up from 44% for 2015/16 and 20% for 2014/15.</li> <li>• the services under the biggest pressure were considered to be adult social care (95% of respondents), children's social care (94%), environment and regulatory services (44%) and housing (37%).</li> </ul>	<i>The Committee should note the survey findings.</i>
<b>Provisional Local Government Finance Settlement 2016/17</b>	 High	<p>The provisional local government finance settlement for 2016/17 was issued on 17 December 2015, and sets out the distribution of centrally allocated resources for local authorities in England. Responses to the consultation are due by 15 January 2016, and the final settlement will be issued in February 2016.</p> <p>The key points are:</p> <ul style="list-style-type: none"> <li>• Local authorities will see an average cut in funding of 2.8% in 2016/17, and a real terms cut of 6.7% over the spending review period.</li> <li>• The government will also offer any council that wishes to take this up a four-year funding settlement to 2019/20. This can provide funding certainty to enable longer term planning.</li> <li>• The referendum threshold for council tax increases is being set at 2%. As announced in the November 2015 spending review, the government is also giving authorities with social care responsibilities the flexibility to raise council tax in their area by up to 2% above the referendum threshold for each year between 2016/17 and 2019/20, to fund adult social care services.</li> <li>• A technical consultation on reforms to the New Homes Bonus is being published alongside the provisional local government finance settlement.</li> <li>• As announced in the spending review, by the end of the current Parliament local government will retain 100% of business rate revenues to fund local services. The system of tariffs and top-ups will be retained, and the main local government grant will be phased out and additional responsibilities devolved to local authorities. These changes will require legislation. The government will set up systems to involve councils, businesses and others in the process, and will consult on the implementation of the 100% business rates retention proposals in summer 2016.</li> </ul>	<i>The Committee may wish to enquire of officers how the Council is to respond to the provisional settlement.</i>

Area	Level of impact	Comments	KPMG perspective
Reporting developments – Code of Practice on Local Authority Accounting 2015/16	 Medium	<p>The key accounting changes in this edition of the Code which impact on the council's accounts include:</p> <ul style="list-style-type: none"> <li>• Amendments to chapter one to underline CIPFA/LASAAC's view of the importance of the consideration of materiality when preparing disclosures for local authority financial statements.</li> <li>• The introduction of a new section on fair value measurement in chapter two (Concepts and Principles) to reflect the adoption of IFRS 13 <i>Fair Value Measurement</i>.</li> <li>• Clarification of the reporting requirements for disclosures that support the Movement in Reserves Statement.</li> <li>• Clarification of the current adaptation of the measurement requirements for property, plant and equipment following the adoption of IFRS 13 and the introduction of the concept of current value. The 2015/16 Code has changed the measurement requirements for assets classified as surplus assets, which are now to be measured at fair value in accordance with the definition in IFRS 13.</li> <li>• Following adoption of the amendments in the Update to the 2014/15 Code, minor clarifications of the reporting requirements in Appendix E (Accounting for Schools in Local Authorities in England and Wales).</li> </ul>	<p><i>The 2015/16 Code includes few changes or clarifications of significance but the Committee may wish officers to confirm that the relevant changes will be reflected in the financial statements.</i></p>
Reporting developments – Infrastructure assets	 Medium	<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. 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:</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>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. 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.</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
New local audit framework	 <b>Medium</b>	<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> <p><i>We will also be preparing a briefing note for clients.</i></p>

Area	Level of impact	Comments	KPMG perspective
National Audit Office Value for Money Conclusion guidance	 <b>Medium</b>	<p>The Local Audit and Accountability Act 2014 provides the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. In November 2015 the NAO published Auditor Guidance Note 03 covering auditors work on audited bodies arrangements for Value for Money.</p> <p>The guidance sets out:</p> <ul style="list-style-type: none"> <li>• The general framework for the auditor's assessment, within the Act and the Code of Audit Practice</li> <li>• The expected areas of focus in determining whether the audited bodies' arrangements are adequate</li> <li>• The expected risk based audit approach and the reporting arrangements</li> <li>• Sector specific guidance for NHS and Foundation Trusts, CCGs, local government, police, fire and rescue and other bodies. The guidance also provides illustrative examples of the types of developments that auditors would be likely to consider to be 'significant risks' and sets out the actions they would be expected to take.</li> </ul> <p>We will discuss the guidance with managers and report our findings to the Audit and Risk Committee.</p> <p><a href="https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/">https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</a></p>	<p><i><b>We will discuss the guidance with managers and report our findings to the Audit and Risk Committee.</b></i></p>


Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015	● Low	<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>	<i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i>

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued)	● Low	<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>	<i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i>

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued)	● Low	<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>	<i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i>

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued)	● Low	<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>	<i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i>

Area	Level of Impact	Comments	KPMG perspective
NAO report – Local Government New Burdens	● Low	<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>	<i>The Committee may wish to review the report to understand what impact this could have at the local government level</i>

Area	Level of Impact	Comments	KPMG perspective
NAO report – Care Act first-phase reforms	 Low	<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 <i>Care Act</i> 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 <i>Care Act</i>'s new burdens is not new money. The Department assumes that £174 million (40%) of <i>Care Act</i> 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 that the issues raised in the report are understood and there are plans in place to address the likely impact at their Authority.</i></p>



# 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	Done
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	Draft to officers - January 2016  Final to Audit and Risk Committee – April 2016	TBC
<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.	Audit visit – March 2016  Final report - May 2016	TBC
<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	Certification of Housing Benefit Claim and Teacher's Pensions Return Report summarising the outcomes of certification work on your claims and returns for Government departments.	November 2016  December 2016	TBC



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