

Report of the: Director of Policy and  
Resources

Agenda  
Item No: 5  
Meeting: 22 September 2015

## **NORTH LINCOLNSHIRE COUNCIL**

### **AUDIT COMMITTEE**

## **EXTERNAL AUDIT REPORT**

### **1. OBJECT AND KEY POINTS IN THIS REPORT**

1.1. To consider external audit's Progress Report and Technical Update.

### **2. BACKGROUND INFORMATION**

2.1 The Progress Report and Technical Update provides the Audit Committee with a summary on progress in delivering external audit's statutory responsibilities. It also highlights key emerging national issues and developments which may be of interest to Members. A copy of the report is attached in appendix A.

### **3. OPTIONS FOR CONSIDERATION**

3.1 The Audit Committee should consider the external auditor's Progress Report and Technical Update. The Committee is invited to seek clarification from the external auditors or council officers as necessary.

### **4. ANALYSIS OF OPTIONS**

4.1. External audit reports are designed to provide regular updates on statutory work undertaken and key developments to help the Audit Committee to fulfil its terms of reference.

### **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

5.1. None.

### **6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

6.1. An Integrated Impact Assessment is not required.

## **7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

7.1. There are no conflicts of interests to declare.

## **8. RECOMMENDATION**

8.1. That the Audit Committee notes Progress Report and Technical Update.

### **DIRECTOR OF POLICY AND RESOURCES**

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**Background Papers used in the preparation of this report:** None



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# External audit progress report and technical update

**North Lincolnshire Council**

September 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					3
KPMG RESOURCES					
Audit Committee Institute: Local Government Seminar Series – Winter 2015					5
KPMG publication titled: Value of Audit: Perspectives for Government					6
TECHNICAL UPDATE					
Reporting developments – Infrastructure assets	<span style="color: orange;">●</span>	8	NAO report – Local Government new burden.	<span style="color: green;">●</span>	11
CIPFA Treasury and Capital Management Panel bulletin – April 2015 update	<span style="color: green;">●</span>	9	NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals	<span style="color: green;">●</span>	11
NAO report – Care Act first-phase reforms	<span style="color: green;">●</span>	10	Local Audit and Accountability Act 2014: Provisions affecting auditors' work from 1 April 2015	<span style="color: green;">●</span>	12
APPENDIX					
Appendix 1 – 2014/15 audit deliverables					17



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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.

Area of responsibility	Commentary
<b>Audit Planning</b>	We completed our risk based audit planning for the 2014/15 audit of your financial statements and VFM conclusion and presented the Audit Plan to the Audit Committee in April 2015.
<b>Financial statements</b>	Our interim audit was completed in March/April, there were no issues requiring reporting. Our audit of your draft financial statements is almost complete. Our ISA260 report is being presented to the Audit Committee today and we will issue our opinion on your financial statements by 30 September 2015.
<b>Value for Money</b>	Our work on the VFM conclusion is complete. Our ISA260 report being presented to today's Audit Committee meeting includes a summary of our findings relating to the VFM conclusion. We will issue our VFM conclusion by 30 September 2015.
<b>Certification of claims and returns</b>	The Housing Benefit & Council Tax Benefit Claim is the only grant remaining under the Public Sector Audit Appointments (PSAA) regime. We commenced this audit in June and we will report before the deadline of 30 November 2015.
<b>Other work</b>	Officer's have requested that we carry out the external certification of the following grants/returns: <ul style="list-style-type: none"> <li>• Teacher's Pensions Return; and</li> <li>• Initial Teacher Training Grant.</li> </ul> This is additional audit work outside of the PSAA scale fee; we will agree fees and engagement letters for this work in due course.



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# KPMG resources

Area	Comments
<b>Audit Committee Institute: Local Government Seminar Series – Winter 2015</b>	<p>Our Audit Committee Institute ('ACI') events have been designed to provide you with sessions that help you consider the challenges faced by Local Government bodies today, and to help you think about the questions you want to be asking in relation to the assurance you need.</p> <p>Our bespoke seminars are tailored to your needs, offering you the opportunity to discuss and share best practice with your peers. They will encourage and spark debate and give you the opportunity to reflect on your role and how your organisation can meet the challenges ahead.</p> <p>Our Winter Local Government sessions will be led by specialists from our dedicated Local Government practice and will focus on hot topics in the sector.</p> <p>The Leeds event will take place on 15 October 2015 from 6pm.</p> <p>Invites will be sent to Audit Committee members in Summer 2015.</p> <p>For more information, please contact <a href="tel:01132313512">Linda Wild Tel: 0113 2313512</a>, email: <a href="mailto:linda.wild@kpmg.co.uk">linda.wild@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>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. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015.</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. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015.</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
<b>CIPFA Treasury and Capital Management Panel bulletin – April 2015 update</b>	<p style="text-align: center;">● <b>Low</b></p>	<p>CIPFA’s Treasury and Capital Management Panel has issued its latest bulletin. These bulletins contain topical treasury management issues which may be of relevance to local authority treasury teams. The latest bulletin covers:</p> <ul style="list-style-type: none"> <li>■ Public Works Loan Board (PWLB) governance changes;</li> <li>■ regulatory changes;</li> <li>■ Lender’s Option, Borrower’s Option loans (LOBOs);</li> <li>■ IFRS 13 and IFRS 9;</li> <li>■ Islamic finance;</li> <li>■ publications update; and</li> <li>■ UK Municipal Bonds Agency.</li> </ul> <p>The bulletin can be found on CIPFA’s website at <a href="http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/treasury-and-capital-management-panel/newsletters-and-bulletins">www.cipfa.org/policy-and-guidance/technical-panels-and-boards/treasury-and-capital-management-panel/newsletters-and-bulletins</a></p>	<p><i>The Committee may wish to seek assurances the issues that are relevant for their treasury management teams are being addressed.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p><b>NAO report – Care Act first-phase reforms</b></p>	<p style="text-align: center;">● <b>Low</b></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;">● 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>
<b>NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals</b>	<p style="text-align: center;">● 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	KPMG perspective
<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;"><b>Low</b></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>



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# Appendix

## Appendix 1 – 2014/15 Audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	2014	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	April 2015	Complete
<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.	Fieldwork Feb/Mar 2015	No report required
<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 2015	On today's Audit Committee agenda
<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 2015	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2015	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2015	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 2015	TBC



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