



# Technical update

Exeter City Council

14 September 2016

# Contents

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|                               | <b>Page</b> |
|-------------------------------|-------------|
| <b>KPMG resources</b>         | 4           |
| <b>Technical developments</b> | 8           |
| <b>Appendices</b>             |             |
| 1. 2015/16 audit deliverables | 20          |

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 information



# KPMG resources

# Publication 'Value of Audit - Perspectives for Government'

## **What does this report address?**

This report builds on the Global Audit campaign – *Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.

Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.

## **What are the key issues?**

- The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.
- The importance of trust and independence of government across different markets.
- How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making.
- The importance of technology integration and the issues that need to be addressed for successful implementation
- The degree of reliance on government financial reports as a result of differing approaches to conducting government audits

The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at

<https://home.kpmg.com/xx/en/home/insights.html>

The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at [www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx](http://www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx)

# Publication 'Reimagine - Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

### **Council cash crunch: New approach needed to find fresh income**

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

### **Councils can save more than cash by sharing data**

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

### **English devolution: Chancellor aims for faster and more radical change**

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

### **Senior public sector pensions**

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

### **Time for the Care Act to deliver**

- Momentum behind last year's *Care Act* risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>

# Publication 'The future of cities'

We are delighted to share *The future of cities*, a report that helps local government leaders build and evaluate sustainable cities for their current and future generations.

## **What is *The future of cities*?**

*The future of cities* is a global report that follows from the UK firm's thought leadership partnership with the City of Bristol and the work surrounding its European Green Capital 2015 designation. The report is broken into two modules that draw on the expertise of KPMG practitioners around the world and includes a range of case studies to ensure you find approaches relevant to your context.

The first module, *The future of cities: creating a vision*, explains the central role of vision in the success of second cities, identifying seven guiding principles to make cities more attractive. Examples are provided of various cities around the globe that are putting some of these principles into action.

The second, *The future of cities: measuring sustainability*, discusses some of the ways in which cities are being measured and how these metrics could evolve. More important, it provides practical examples of what leading cities are doing, the lessons to be learned and how these can be applied to other cities.

This content is now featured on [kpmg.com/futurecities](http://kpmg.com/futurecities) where readers can access a broader collection of reports and shorter opinion pieces from KPMG's leading thinkers on different aspects on how to create better, more sustainable places to live and work.



# Technical developments

# Appointment of external auditor

| Level of impact: ● (Medium)  | KPMG perspective  |
|--|---|
| <p>Following the Audit Commission's closure local authority external audits are currently governed by transitional arrangements under the <i>Local Audit and Accountability Act 2014</i>, with audit contracts overseen by Public Sector Audit Appointments Ltd (PSAA). These transitional arrangements end with the audit of 2017/18 financial years, so auditors must be appointed under the new arrangements from 2018/19. In practice this decision must be made by 31 December 2017. There are three main options for local authorities to consider:</p> <ol style="list-style-type: none"><li>1. Undertake an individual auditor procurement and appointment exercise;</li><li>2. Undertake a joint audit procurement and appointing exercise with other bodies, for example those in the same locality; or</li><li>3. Join a 'sector led body' arrangement where an approved third party procures audit on behalf of multiple bodies.</li></ol> <p>As the relevant supervisory body, the Institute of Chartered Accountants in England and Wales (ICAEW) maintains a register of audit firms and 'key audit partners' who have been recognised as meeting the eligibility criteria for local audit. Whatever the approach taken, local authorities can only appoint audit firms from the ICAEW register. KPMG has been registered by ICAEW for local audit work and has 21 Partners and Directors recognised as meeting the eligibility criteria, providing comprehensive national coverage through an experienced senior team.</p> <p>For options 1 and 2, the Act requires an Auditor Panel to be established. Guidance on auditor panels at local authorities has been issued by the CIPFA – see <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></p> <p>One option, subject to complying with EU procurement rules, might be to continue with your current auditor for an initial period. Although this would delay testing the market, fees could be benchmarked for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and avoid the 'rush to market' as other local authorities undertake procurement exercises within a short time period, allowing tendering later in a more settled market.</p> | <p><i>Members may wish to discuss the options open to them on how to procure their auditor for 2018/19 and beyond and ensure they formulate a timetable for making this decision.</i></p> |

# Appointment of external auditor (cont.)

| Level of impact: ● (Medium)  | KPMG perspective |
|--|------------------|
| <p>The Audit Commission produced a report and slide pack summarising the lessons learnt from its 2012 and 2014 procurements of audit services, providing the reader with a list of factors that contributed to the delivery of successful outcomes for both procurements. A copy of this document can be found on the PSAA website at <a href="http://www.psaa.co.uk/wp-content/uploads/2016/01/Learning-the-lessons-from-the-2012-and-2014-Audit-Commission-procurements-of-audit-services.pdf">www.psaa.co.uk/wp-content/uploads/2016/01/Learning-the-lessons-from-the-2012-and-2014-Audit-Commission-procurements-of-audit-services.pdf</a></p> <p>The lessons learnt may be helpful in generally informing procurements of audit services undertaken by individual local public bodies or collective procurement bodies under the new arrangements. However, it should be noted that the procurements undertaken by the Audit Commission were unique to the Commission's regime and the approaches taken may not be relevant in their entirety to other procurements.</p> <p>For option 3, in July 2016 the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the <i>Local Audit (Appointing Person) Regulations 2015</i>. This means that PSAA can make auditor appointments from 2018/19 to relevant principal authorities that choose to opt into its national collective scheme. For further information, see PSAA's website - <a href="http://www.psaa.co.uk/supporting-the-transition/appointing-person/">www.psaa.co.uk/supporting-the-transition/appointing-person/</a></p> |                  |

# Business Rates Retention

| Level of impact: ● (Medium)  | KPMG perspective   |
|--|--|
| <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>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.</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>Committee members may wish to be aware that, as a result of these proposals, DCLG has launched two consultations on its proposals for 100% retention of business rates by the local government sector.</p> <p>The first consultation seeks to identify issues that should be kept in mind when designing the reforms; the second is a call for evidence to inform the government's fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. Both consultations close on 26 September 2016.</p> <p>The consultation documents and information about how to respond are available for both at <a href="http://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention">www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention</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> |

# NAO Report on Capital Expenditure and Resourcing

| Level of impact: <span style="color: green;">○ (Low)</span>   | KPMG perspective   |
|---|--|
| <p>Committee members may wish to be aware that the National Audit Office has published its report <i>Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing</i>. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.</p> <p>The report can be accessed via the NAO website at <a href="http://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/">www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</a></p> | <p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p> |

# PSAA's Value For Money Tool

| Level of impact: <span style="color: green;">○ (Low)</span>  | KPMG perspective   |
|--|--|
| <p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 1 July 2016.</p> <p>The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years. The children and young people section has also been updated with 2014/15 data.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none"><li>— Adult Social Care Financial Return (new data collection) (2014/15)</li><li>— Referrals, assessments and packages of care for adults (RAP) (2014/15)</li><li>— Pupil numbers (2015)</li><li>— Provision for Children Under Five Years of Age in England (2015)</li><li>— Children in Care and Adoption Performance Tables (2014/15)</li><li>— Key Stage 2 Attainment (2014/15)</li><li>— GCSE and Equivalent Attainment by Pupil Characteristics in England (2014/15)</li><li>— Section 251 outturn data - Table A1 Children and young people services (2014/15)</li><li>— Section 251 outturn data - Table A Education budget (2014/15)</li><li>— Special Educational Needs in England (2014/15)</li><li>— Attainment by Age 19 (2014/15)</li><li>— Participation in Education, Training and Employment by 16-18 Year Olds in England (2015)</li><li>— Pupil Absence in Schools (2014/15)</li><li>— National road maintenance condition survey (2014/15)</li></ul> | <p><i>The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.</i></p> |

# PSAA's Value For Money Tool (cont.)

| Level of impact: <span style="color: green;">○ (Low)</span>  | KPMG perspective |
|--|------------------|
| <ul style="list-style-type: none"><li>— Proportion of bus services running on time (2014/15)</li><li>— Annual Population Survey (2015)</li><li>— Finance and General Statistics (2014/15)</li><li>— Revenue Collection (2014/15)</li><li>— Claimant count (2016)</li><li>— Affordable housing supply (2014-15)</li><li>— Active people survey (2014/15)</li><li>— Public Health Outcomes Framework (2014/15)</li><li>— Conception Statistics, England and Wales (2014)</li><li>— First time entrants into the Youth Justice system (2014/15)</li></ul> <p>The Value For Money Profiles can be accessed via the PSAA website at<br/><a href="http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing">http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</a></p> |                  |

# Whole of Government Accounts

| Level of impact: <span style="color: green;">○ (Low)</span>   | KPMG perspective   |
|---|--|
| <p>Committee members may wish to be aware that HM Treasury has published the local government data collection tool (DCT) and guidance. Authorities who have problems with their DCT should contact HM Treasury directly.</p> <p>HM Treasury has confirmed in its guidance that the deadlines for local government WGA submissions are as follows:</p> <ul style="list-style-type: none"><li>— 12 August: the DCT to be submitted by the authority for auditor review.</li><li>— 21 October: auditor's work to be completed.</li></ul> <p>Committee members are reminded that auditors will not issue their Audit Certificate, which formally closes the 2015/16 audit, until they have completed their work on WGA.</p> | <p><i>The Committee may wish to understand how their Authority is progressing with the WGA submission process and seek assurances that an appropriate timescale is in place.</i></p> |

# 2015/16 Code of Practice Update

| Level of impact: <span style="color: #99CCFF;">○</span> (Low)  | KPMG perspective   |
|--|--|
| <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> |

# Government contracting

### Level of impact: ● (For Information)

The NAO has recently published an overview of its work on the government's management of contracting which Committee members may wish to be aware of, particularly in relation to value for money arrangements.

The publication examines subjects including the government's commercial capability, accountability and transparency, and its management of contracted-out service delivery. It finds that government now spends about £225 billion a year with private and voluntary providers. The role of providers in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high profile commissioning arrangements in sensitive public service areas such as health and justice

The overview is available from the NAO website at [www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/](http://www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/)

# 2016/17 Work Programme and Scale of Fees

**Level of impact:** ● (For Information)

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at [www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees](http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees)

# Devolution

### Level of impact: ● (For Information)

In spring 2016, the NAO published its report *English devolution deals*. This report finds that devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended.

The report is available free of charge and the full version or a summary can be accessed at [www.nao.org.uk/report/english-devolution-deals/](http://www.nao.org.uk/report/english-devolution-deals/)

In addition, CIPFA's Yorkshire and Humber regional executive and KPMG are hosting a free event on devolution in local government in our Leeds office on the evening of the 29 September.

Full details of the event (and where you can sign up) can be found here: [www.cipfa.org/training/c/cipfa-regions-yorkshire-and-humber-events--devolution--can-it-deliver-20160929](http://www.cipfa.org/training/c/cipfa-regions-yorkshire-and-humber-events--devolution--can-it-deliver-20160929)



# Appendix

## Appendix 1

# 2015/16 audit deliverables

| Deliverable  | Purpose  | Timing of Audit Committee | Status   |
|--|--|---------------------------|--|
| <b>Planning</b>  |  |                           |  |
| Fee letter   | Communicate indicative fee for the audit year  | April 2015                | Complete   |
| External audit plan                                      | Outline our audit strategy and planned approach<br><br>Identify areas of audit focus and planned procedures  | January 2016              | Complete   |
| <b>Interim</b>   |  |                           |  |
| Interim report   | Details and resolution of control and process issues.<br><br>Identify improvements required prior to the issue of the draft financial statements and the year-end audit.<br><br>Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources. | September 2016            | Part of our ISA 260 Report - Complete            |
| <b>Substantive procedures</b>                            |  |                           |  |
| Report to those charged with governance (ISA 260 report) | Details the resolution of key audit issues.<br><br>Communication of adjusted and unadjusted audit differences.<br><br>Performance improvement recommendations identified during our audit.<br><br>Commentary on the Council's value for money arrangements.                                    | September 2016            | Provided to the Audit Committee at this meeting. |

## Appendix 1

# 2015/16 audit deliverables (cont.)

| Deliverable                                | Purpose   | Timing of Audit Committee | Status   |
|--|---|---------------------------|--|
| <b>Completion</b>                          |   |                           |  |
| Auditor's report                           | Providing an opinion on your accounts (including the Annual Governance Statement).<br><br>Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). | September 2016            | Provided to the Audit Committee at this meeting. |
| WGA  | Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.  | September 2016            | Provided to the Audit Committee at this meeting. |
| 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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