



Technical update

Exeter City Council

February 2018

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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

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



External audit progress report

External audit 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
Financial statements	<p>We have completed our planning work for the 17/18 audit, considering key issues at the Council and any relevant requirements as per the Code. This has informed our audit plan, which has been presented at this committee.</p> <p>We will complete our interim fieldwork during March 2018, to test the control environment at the Council. The final audit will be completed during June 2018, as part of the 'faster close' earlier deadlines.</p>
Value for Money	<p>Our approach for the 17/18 conclusion has been considered as part of our audit planning. See audit plan for key risks raised.</p>
Certification of claims and returns	<p>The Housing Benefit grant certification was completed before the November deadline. We issued a qualified certificate on this grant claim. Planning will commence for the 17/18 certification from April 2018.</p> <p>We have completed our work on the return for Pooling of Housing Capital Receipts with no issues noted. This was reported to DCLG on 3 November 2017.</p> <p>Our Annual report on grants and returns will be presented to this Audit & Governance Committee meeting</p>
Other work	<p>There is no other work ongoing currently.</p>



KPMG Resources

How to build a business case

A sound business case is a foundation to effective investment decisions. It is crucial for making the right investment decisions. As the pressure on local authority finances continues the role of major investment and transformation decisions will become more critical to delivering a sustainable future. Robust business cases are vital to ensuring that investment choices have the best chance of delivering success.

Through KPMG's work with over 100 public sector bodies we have produced a practical guide to preparing robust and proportionate business cases to support both routine and strategic investment decisions.

The report covers:

- The role of the business case
- How to achieve consistent quality
- Getting the balance right in the content of the business case
- Achieving objectivity
- The business case framework
- A guide to local government business cases, including the requirements for good business cases, split into 11 elements.

The full report can be accessed here: <https://home.kpmg.com/uk/en/home/insights/2017/12/local-government-how-to-build-a-business-case.html?hootPostID=ad392ed3a21657cc96c79dbd6eb73134>



Technical developments

Auditor Guidance Note 1 (AGN 01) – General Guidance

Level of impact: ● (for action)	KPMG Perspective
<p>The Comptroller and Auditor General (C&AG) has issued a revised version of Auditor Guidance Note 1 (AGN 01).</p> <p>AGN 01 provides general guidance to auditors of local bodies, and sets out the overall framework for issuing guidance and for providing other support to local auditors. It includes relevant ethical requirements which those charged with governance may wish to be aware of.</p> <p>A copy of AGN 01 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-01-General-Guidance-Supporting-Local-Audit.pdf</p>	<p>Those charged with governance will wish to be aware of the requirements of the FRC’s ethical standard and the supplementary and explanatory guidance set out in AGN 01.</p>

Auditor Guidance Note 7 (AGN 07) – Auditor Reporting

Level of impact: ● (for action)	KPMG Perspective
<p>The Comptroller and Auditor General (C&AG) has issued an update version of Auditor Guidance Note 7 (AGN 07).</p> <p>AGN 07 is relevant to all bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code).</p> <p>The changes include revisions to clarify the guidance relating to:</p> <ul style="list-style-type: none"> • Reporting to those charged with governance, which needs to cover the range of audit responsibilities under the Code including auditor judgements on significant risks in respect of arrangement to secure value for money • In specified circumstances, enhanced reporting requirements under ISA (UK) 700, including the reporting of key audit matters under ISA (UK) 701 • Reporting considerations in relation to material uncertainty in respect of going concern • Considering when to issue the annual audit letter, including in situations where work remains outstanding, for example, on Whole of Government Accounts returns; and • Part-year reporting requirements. <p>A copy of AGN 07 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-07-Auditor-Reporting-1.pdf</p>	<p>Those charged with governance will wish to be aware of the reporting requirements of the Local Audit and Accountability Act 2014.</p>

DCLG FAQ on MRP and Investment Code guidance

Level of impact: ● (For Action)	KPMG Perspective
<p>The Department for Communities and Local Government (DCLG) has issued its FAW on the Minimum Revenue Provision (MRP) and Investment Code guidance consultations. The consultation on the proposed changes closed on 22nd December 2017, and changes will be made after the analysis of consultation responses.</p> <p>The FAQ includes common queries from local authorities, and covers the following:</p> <ul style="list-style-type: none">• Clarification what the section on borrowing in advance of need means• Whether the proposals on MRP mean that local authorities no longer have the flexibility to decide what is prudent provision for debt• Whether local authorities should apply the current or the proposed Codes whilst making decisions during the consultation period• If the changes to the MRP guidance will be applied prospectively or retrospectively. <p>The full FAQ can be found at the following link: https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance/prudential-framework-of-capital-finance-qa</p>	<p>Members may wish to discuss with officers what, if any, is the potential impact of the consultations.</p>

CIPFA/LASAAC statement on the adoption of IFRS 9 Financial Instruments

Level of impact: ● (For Information)

Members may wish to be aware that the Chartered Institute of Public Finance and Accountancy Local Authority Code Board (CIPFA LASAAC) has published a statement on the adoption of IFRS 9 Financial Instruments.

IFRS 9 will be adopted in the 2018/19 local government accounting code.

Members may wish to consider the effect of the adoption of IFRS 9 on the financial statements for 2018/19.

PSAA's consultation on 2018-19 scale of fees for opted-in bodies

Level of impact: ● (For Information)

Public Sector Audit Appointments (PSAA) has published its consultation on the 2018-19 scale of fees for principal local government and police bodies that have opted into the appointing person arrangements.

The consultation is available on the PSAA website at: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/>

The consultation proposes that scale audit fees for 2018-19 should reduce by 23 per cent, compared to the fees applicable for 2017-18. More details on the proposals are set out in the consultation document.

Proposed 2018-19 scale fees for individual opted-in bodies, based on the 23 per cent reduction, are listed on the website and are accessible through the following links:

- Local government: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-local-government-bodies/>
- Local police bodies: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-police-bodies/>
- Pension fund audits: <https://www.psa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-pension-funds/>

Technical developments

Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

Level of impact: ● (For Information)

The NAO has conducted an investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership. The investigation was prompted by concerns raised about the Partnership.

The role of Local Enterprise Partnerships (LEPs) continues to grow, and it may be noted that government has given LEPs a key role in the recently published Industrial Strategy to lead the development of Local Industrial Strategies.

Information on the UK's Industrial Strategy can be found at the following link: <https://www.gov.uk/government/topical-events/the-uks-industrial-strategy>

The Department for Communities and Local Government (DCLG) carried out a national review of LEP governance and transparency. The review made a number of recommendations for improvement.

The review, published on 26 October 2017, with the aim of providing sufficient assurance to the Accounting Officer's and ministers that LEPs fully implement existing requirements for appropriate governance and transparency.

A full copy of the report can be found at the following link: <https://www.gov.uk/government/publications/review-of-local-enterprise-partnership-governance-and-transparency>

PSAA's report on the results of auditors' work 2016-17

Level of impact: ● (For Information)

Public Sector Audit Appointments Ltd (PSAA) published its Report on the results of auditors' work 2016/17: Local government bodies on Tuesday 19th December.

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016-17. The report covers the timeliness and quality of financial reporting, auditors' local value for money arrangements work, and the extent to which auditors used their statutory reporting powers.

The timeliness and quality of financial reporting for 2016-17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies.

Compared with 2015-16, the number of principal bodies receiving an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on the accounts by the end of July compared with 49 (10 per cent) for 2015-16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017-18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015-16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new timetable. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

For the fourth year in a row there have been no qualified opinions on the accounts issued to date to principal bodies. The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015-16.

The complete report is available publically on the PSAA website: <https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2017	Complete
Interim			
Interim Letter	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.	May 2017	Complete
Substantive procedures			
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 2017	Complete

Appendix 1

2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
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 2017	Complete
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	Complete
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	Complete
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	February 2018	Complete - see attached



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