

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 2 December 2015
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Sharon Sissons, Democratic Services Officer (Committees) on 01392 265115 or email sharon.sissons@exeter.gov.uk

Entry to the Civic Centre can be gained through the Customer Services Centre, Paris Street.

Membership -

Councillors Vizard (Chair), Laws (Deputy Chair), Baldwin, Buswell, Harvey, Henson, Lyons, Raybould, Sheldon, Thompson and Williams

Agenda

Part I: Items suggested for discussion with the press and public present

1 Apologies

To receive apologies for absence from Committee members.

2 Minutes

To sign the minutes of the meeting held on 23rd September 2015.

3 Declaration of Interests

Councillors are reminded of the need to declare any discloseable pecuniary interests that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any further discussion on the item. Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

- 4 **Local Government (Access to Information) Act 1985 - Exclusion of Press and Public**
RESOLVED that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of item 11 on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of the Act.
- 5 **Audit and Governance Committee Update**
To consider the report of the Council's current external Auditors Grant Thornton. (Pages 5 - 18)
- 6 **Annual Audit Letter 2014/2015**
To consider the report of the Council's current External Auditors Grant Thornton. (Pages 19 - 28)
- 7 **2014/15 Certification Report**
To consider the report of the Council's current External Auditors Grant Thornton.
to follow
- 8 **Internal Audit Progress Report**
To consider the report of the Audit Managers. (Pages 29 - 40)
- 9 **Presentation from KPMG**
To receive a presentation from the incoming Council's external auditor KPMG.
- 10 **Progress report and Technical Update KPMG**
To consider the report of the Council's incoming External Auditors KPMG. (Pages 41 - 64)

Part II: Item for Consideration with the Press and Public Excluded

- 11 **Review of Corporate Governance Risk Register**
To consider the report of the Corporate Manager Policy, Communications and Community Engagement. (Pages 65 - 78)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 9 March 2016 at 5.30 pm

Find out more about Exeter City Council by looking at our website <http://www.exeter.gov.uk> . This will give you the dates of all future Committee meetings and tell you how you can ask a question at a Scrutiny Committee meeting. Alternatively, contact the Democratic Services Officer (Committees) on 01392 265107 for further information.

Follow us:

www.twitter.com/ExeterCouncil

www.facebook.com/ExeterCityCouncil

Individual reports on this agenda can be produced in large print on request to Democratic Services (Committees) on 01392 265111

This page is intentionally left blank

Audit and Governance Committee Update for Exeter City Council

Year ended 31 March 2015

Committee Date: 2 December 2015

Page 5

Geraldine Daly

Engagement Lead

T 0117 305 7741

E geri.n.daly@uk.gt.com

David Bray

Senior Audit Manager

T 07880 456 126

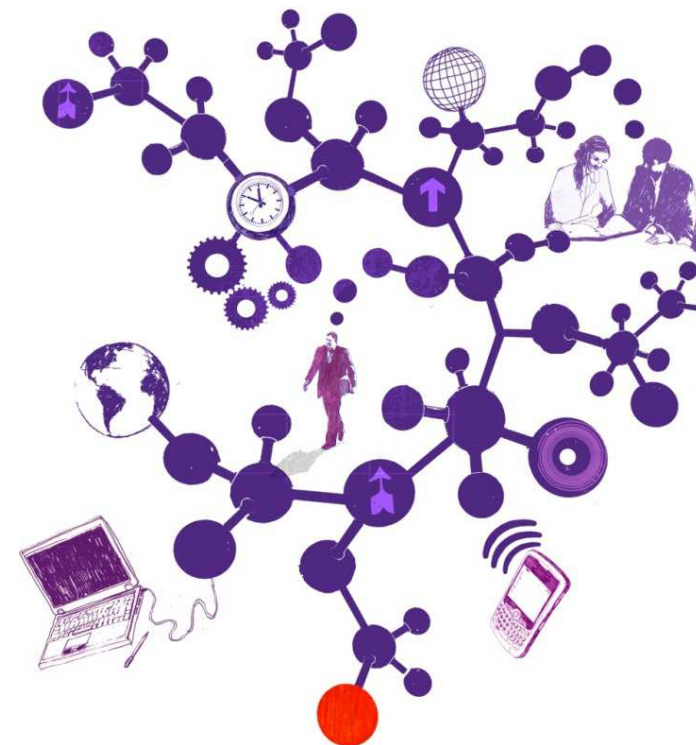
E david.bray@uk.gt.com

Tori Redler

Executive

T 0117 305 7744

E victoria.j.redler@uk.gt.com



Agenda Item 5

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
Introduction	4
Progress at 19 November 2015	5
Emerging issues	7

Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications referred to in these updates.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Geraldine Daly, Engagement Lead: T 0117 305 7741 geri.n.daly@uk.gt.com

David Bray, Senior Audit Manager: T 07880 456 126 david.bray@uk.gt.com

Progress at 18 November 2015

Work	Due By	Complete	Comments
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • Whole of Government Accounts (WGA) opinion 	<p>30 September 2015</p>	<p>Yes</p>	<p>We reported our findings to the Council's Audit and Governance Committee on 23 September 2015.</p> <p>We issued an unqualified audit opinion on the Council's financial statements for the year ended 31 March 2015 on 25 September 2015, ahead of the national deadline of 30 September.</p> <p>We also made the necessary submission to the National Audit Office regarding the Whole of Government Accounts on 25 September, ahead of the national deadline of 2 October.</p>
<p>2014-15 VFM Conclusion</p> <p>We are required to assess whether Exeter City Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness 	<p>30 September 2015</p>	<p>Yes</p>	<p>We reported our findings to the Council's Audit and Governance Committee on 23 September 2015.</p> <p>We issued an unqualified VFM conclusion for the year ended 31 March 2015 on 25 September 2015, ahead of the national deadline of 30 September.</p>

Progress at 18 November 2015

Work	Due By	Complete	Comments
2014-15 Annual Audit Letter	31 October 2015	Yes	Our Annual Audit Letter summarises the findings of our audit work in the year. This is a separate agenda item for the Council's Audit and Governance Committee and will be presented on 2 December 2015.
2014-15 certification work This work is expected to cover: <ul style="list-style-type: none"> • Housing benefits (mandated by the Audit Commission) • Housing capital receipts (audit related additional work) 	30 November 2015	Not at the time of writing	We will report the findings of our Housing Benefits work to the December 2015 Audit and Governance Committee in our certification report.
Other activities <ul style="list-style-type: none"> • We have provided the Council's incoming External Auditors, KPMG, with copies of our audit reports for the last two financial years (i.e. 2013/14 and 2014/15) • In order to help facilitate the change of External Auditors, we met with the audit team from KPMG on 17 November 2015. 			

Knowing the Ropes – Audit Committee Effectiveness Review

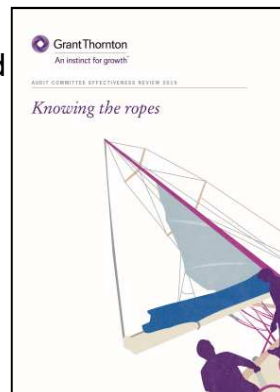
Grant Thornton

This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

- Page 11
- The report is structured around four key issues:
- What is the status of the audit committee within the organisation?
 - How should the audit committee be organised and operated?
 - What skills and qualities are required in the audit committee members?
 - How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Size: 3-5 members is an ideal size for an audit committee

Frequency: meetings should be regular and the length should adapt to content

Relevance: audit committee members should be selected based on the skills and experience they bring

Communication: papers should strike the balance between detail and length

Ability: training should be provided for audit committee members

Clarity: the role of the audit committee and its relationship with other committees, should be clearly defined

Evolution: audit committees should continually develop

The two key things that audit committee members should be asking are:

- 1 What is expected of the audit committee and does it reflect the specific nature of the industry in which the organisation sits?
- 2 Does the audit committee have clear terms of reference in place? Audit committees should set themselves targets for what they want to achieve and define how these will be measured to ensure they are operating effectively.

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

Page 1
With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

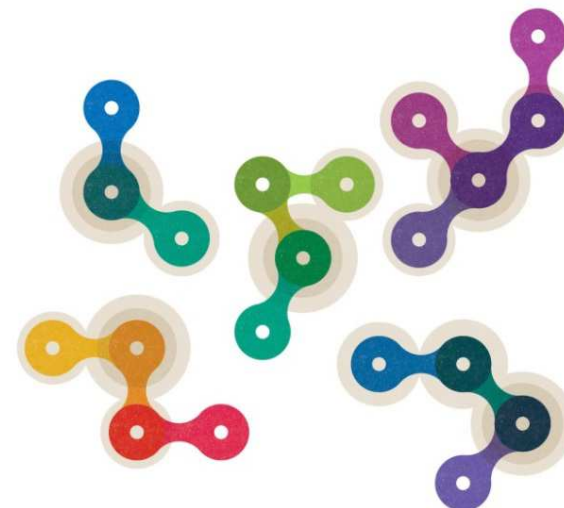
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager

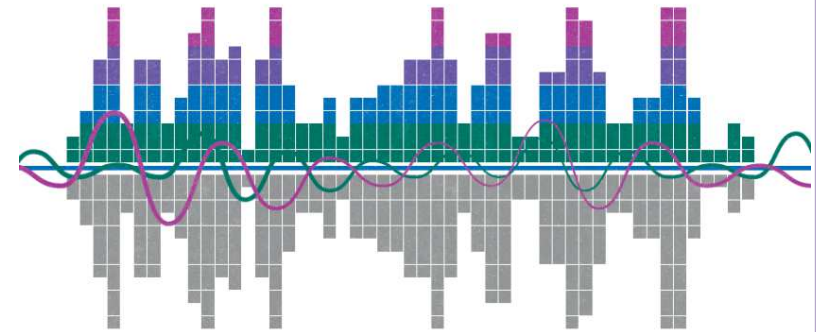


Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.



Page 13

Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager

Improving efficiency of council tax collection

Local government issues

The Department for Communities and Local Government (DCLG) have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax.

The consultation is aimed at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closed on 18 November 2015.

The Government proposes to extend the data-sharing gateway which currently exists between HM Revenue and Customs (HMRC) and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor.

The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

Page 15

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

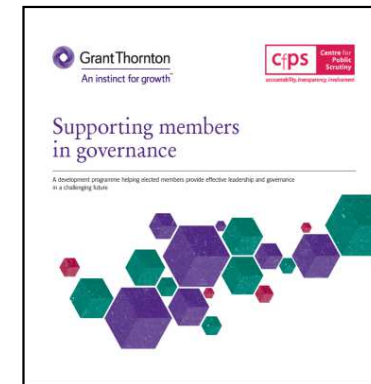
Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager





© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant.thornton.co.uk

This page is intentionally left blank

The Annual Audit Letter for Exeter City Council

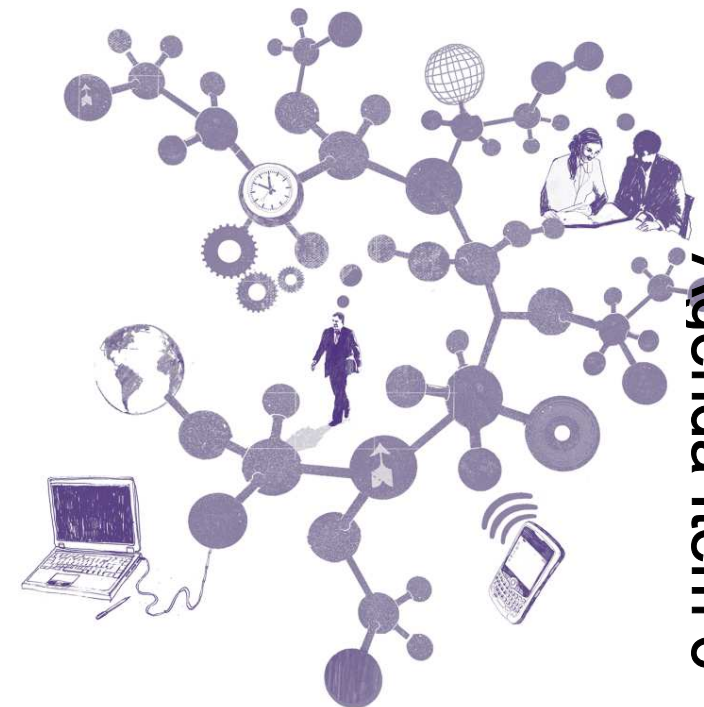
Year ended 31 March 2015

October 2015

Page 19

Geraldine Daly
Associate Director
T 0117 305 7741
E geri.n.daly@uk.gt.com

David Bray
Senior Manager
T 0117 305 7889
E david.bray@uk.gt.com



Agenda Item 6

Contents

Section	Page
1. Key messages	3

Appendices

- A Key issues and recommendations
- B Summary of reports and audit fees

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Exeter City Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Audit and Governance Committee on 24 June 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

Page 21

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 23 September 2015 to the Audit and Governance Committee. The key messages reported were:

- We did not identify any material errors within the Council's financial statements, although we did request that two prior period adjustments were presented differently.
- There was only one unadjusted error within the Council's financial statements which relates to the accounting of the pension liability for Strata – see overleaf.

We worked closely with Exeter City Council, East Devon District Council and Teignbridge District Council regarding the accounting treatment of Strata Service Solutions Limited (Strata). The Councils are of the view that the Company is a joint operation and we concur with this view. The financial statements of Strata have been included within the Councils' own single entity accounts.

Key messages continued

Financial statements audit (including audit opinion) continued

Strata produced draft financial statements for the period 1 November 2014 to 31 March 2015 which the Councils used to produce their own draft accounts. Strata's External Auditors found that these draft accounts contained a significant error relating to the treatment of capital payments to Strata from each of the three Councils. This was originally treated as income in Strata's draft financial statements but in the audited Strata accounts it was revised to reflect the fact that it related to subsequent capital expenditure. The Council reflected the changes to the draft Strata accounts in its own accounts.

When Strata began trading, staff transferred to the company under TUPE arrangements and Strata took over the full pensions liabilities relating to these staff, which in some cases may have been built up over a number of years of Council service. The way in which pensions impact on the income and expenditure account is different between companies and Local Authorities. When the Council consolidated the figures for Strata into its own financial statements it applied the statutory override to its share of Strata's pensions liabilities; this amounted to £1.136 million. Our view is that this was not appropriate and the Council has not been able to provide us with a compelling case for applying this override. We have recommended to the Council through the Audit and Governance Committee in our presentation on 23rd September 2015, that they obtain legal advice about the guarantees provided by the Councils for the pension liabilities of Strata, with the ultimate aim of resolving this issue in 2015/16.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 25 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2014/15 on 25 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>
<p>Certification of housing benefit grant claim</p>	<p>Our work on the certification of the Housing Benefits claim is on-going.</p> <p>During our audit of the Council's financial statements we identified an error regarding the parameters for the up-rating of certain state benefits. The system required the percentage increase to be entered e.g. 2.9%.</p> <p>However, the Council entered the factor – in this case 1.029. The system assumed this to be 1.029% and therefore understated claimants' incomes and consequently overpaid them benefits. This did not affect every claimant as the up-rating is only used in certain circumstances, although there are 1,135 claims in total that will need to be checked.</p> <p>The Council has estimated a 'worst case' scenario – assuming all of the 1,135 cases are wrong – and the total of this is approximately £85,000. The Council expects that the final error will be far less than this, but this cannot be confirmed until all of the cases have been reviewed. Once the cases have all been reviewed, we will be able to assess the impact, if any, on the amount of subsidy payable to the Council.</p> <p>The key messages from our certification work will be reported in our certification report, once all work has been completed at the end of November.</p>
<p>Audit fee</p>	<p>Our fee for 2014/15 was £77,183, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Accounting For Strata's Pension Transactions</p> <p>Recommendation: The Council should seek legal advice regarding the accounting for the pensions liability of Strata Service Solutions Limited and, in particular, whether a guarantee from the three Councils could remove the liability from Strata's financial statements. The Council should arrange for the guarantee to be put in place in relation to the pension liability in relation to this and account for this accordingly.</p>	High	<p>Agreed. The three Councils will look into the implications of the additional guarantee to establish whether it will work satisfactorily in a situation where there are three owners of the Company.</p> <p>Responsible officer: Assistant Director, Finance Due date: March 2016</p>
2.	<p>Journal Authorisation</p> <p>Recommendation: The Council should introduce a sample-based approach to journal review and authorisation covering all journals.</p>	Medium	<p>As an alternative to introducing a sample based approach, our Systems Accountant has established that the Efinancials system has the functionality for journal authorisation to be introduced as a control and this is now subject to testing. We are currently seeking advice from the software supplier regarding whether the journal authorisation controls can be introduced for specific journal types, rather than applied to all journal types (e.g. interface journals). If this is not possible, we may consider reverting back to the recommended sample based approach.</p> <p>Responsible officer: Technical Accounting Manager Due date: December 2015</p>

Appendix A: Key issues and recommendations (cont'd)

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>Performance of Strata</p> <p>Recommendation: The Council should keep the financial and operational performance of Strata under review to ensure the expected savings and efficiencies are delivered in practice</p>	Medium	<p>Agreed</p> <p>Responsible officers: Joint Executive Committee / Board</p> <p>Due date: From 1 October 2015</p>
Page 25	<p>Arrears</p> <p>Recommendation: The Council need to develop a plan to address the increasing level of arrears and report progress against this to Members.</p>	Medium	<p>Agreed. The Assistant Director, Finance and Assistant Director, Customer Access will develop an action plan and report against this to the Audit & Governance Committee.</p> <p>Responsible officers: Assistant Director, Finance and Assistant Director, Customer Access</p> <p>Due date: December 2015</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	77,183	77,183
Housing benefit grant certification fee	10,890	*TBC
Total audit fees	88,073	TBC

The indicative fee published by Audit Commission for grant certification work required in 2014/15 for the Council is £10,890. As the work has not yet been completed on the grant certification, we cannot confirm the final fee.

Page 26

Fees for other services

Service	Fees £
Audit related services	
Certification of pooled housing receipts return	TBC
Non audit related services	
We have invoiced the following amounts in 2014/15:	
Trade waste claim	£6,667
VAT advice	£1,800
	£8,447

Reports issued

Report	Date issued
Audit Plan	June 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015
Certification Report	Expected November 2015



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 2nd DECEMBER 2015

Report of: AUDIT MANAGERS

Title: INTERNAL AUDIT PROGRESS REPORT 2ND QUARTER 1st JULY TO 30th SEPTEMBER 2015

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

To report on internal audit work carried out during the period 1st July to 30th September 2015, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. Recommendations:

That the Internal Audit Progress Report for the second quarter of the year 2015/16 be noted.

3. Reasons for the recommendation:

One of the roles of this committee is to review quarterly internal audit reports and the main issues arising and seek assurance from management that action has been taken, where necessary.

4. What are the resource implications including non financial resources.

None.

5. Section 151 Officer's comments:

There are no financial implications contained within the report. It is encouraging to note that no significant weaknesses have been found in the systems audited this quarter.

6. What are the legal aspects?

None.

7. Monitoring Officer's comments:

None.

8. Report details:

This Committee is responsible for the implementation and active monitoring of audit processes and actions, which includes performance against the annual audit plan, reviewing quarterly internal audit progress reports and seeking responses and assurance from management regarding audit recommendations that have not been accepted or those not

implemented within a reasonable timescale. The 2015/16 Audit Plan was approved at this Committee on 11th March 2015.

The purpose of Internal Audit is to provide an independent and objective review of the adequacy and effectiveness of the Council's arrangements for internal control, risk management and governance. The activities we audit are given an assurance rating as follows:

Excellent	★★★★★	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	★★★★	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.
Some improvement required	★★★	There is a basic control framework in place, but not all risks are well managed and a number of controls are required to be strengthened.
Significant improvement required	★★	Most of the areas reviewed were not found to be adequately controlled. Risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
Fundamental weakness	★	Controls are seriously lacking or ineffective in their operation No assurance can be given that the system's objectives will be achieved.

8.1 Work Undertaken

Internal Audit's objective is to examine the Council's financial and non-financial systems to check that there are adequate internal controls in place to prevent loss due to frauds, errors and inefficiency, and due attention is paid to corporate governance and risk management.

A summary of progress against the annual audit plan to date is shown at Appendix A, together with the current status of each area for review and the outcomes of the review, where completed.

The table is based on the audit plan and the systems grouped into the twelve strategic purposes as per the Corporate Plan.

A further summary of the outcomes of audits completed can be found at Appendix B.

Progress against the annual audit plan is on target.

8.2 Issues for consideration

There are no instances to report where recommendations were not accepted by management during this quarter.

There are no instances of management accepting a recommendation which was not subsequently implemented within a reasonable timescale.

8.3 Governance Issues

The Council's annual governance statement (AGS) included a number of significant issues identified in the Audit Manager's Annual report. The AGS states that the aim is to address these weaknesses during 2015/16 financial year, by way of an action plan for improving the governance framework and system of internal control and this will be monitored by the Audit and Governance Committee. An action plan of the issues identified has been included in Appendix C.

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

N/A

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

N/A

Helen Putt & Helen Kelvey
Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

This page is intentionally left blank

**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

PROGRESS OF 2015/16 AUDIT PLAN AS AT 30/09/15

Audit Area	Budget Days	Actual Days	Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
						High	Med	Low

Leader

'A stronger city'

External Funding & Grants	5	0.2	To start Q3					
---------------------------	---	-----	-------------	--	--	--	--	--

Enabling Services

'A well run Council'

'Maintain our property assets of the city'

Main Accounting 2014-15	20	2	To start Q4					
Income Management/Sundry Debt	25	5.9	To start Q4					
Procurement	20	19.9	Draft report					
Creditors	40	25.5						
First half year Second half year			Final report To start Q3	↔	Good	0	5	5
Insurance	5	0	To start Q3					
People Management	20	16.7	Draft report					
ICT – Shared service	10	2.7	Ongoing					
Business Continuity	13	0	To start Q3					
Risk Management	10	2.9	No report due					
Contract management - Corporate Property Assets	10	15.1	Draft report					
Contract Management – Other services	10	26.5	Draft report					
Counter Fraud/Anti-Fraud	10	2.8	Final	No previous report	Good	0	4	5
Corporate governance	10	3.7	Ongoing					
Information Governance	10	7.7	In progress					
Equalities & Diversity	10	11.7	Final report	No previous report	Good	0	4	5
Partnerships	5	1.9	In progress					
Hospitality & gift disclosures	1	0	To start Q4					
External Audit	2	0.2	No report due					

Customer Access

'Help me with my financial problem'

'Make it easy for me to pay you'

'Provide suitable housing'

Housing Benefit Subsidy	40	16.3	In progress					
Council Tax	25	0.2	To start Q3					
NDR	10	0	To start Q3					
One View of Debt (OVD)	25	3.1	To start Q3					

Housing - Tenants	10	6.7	In progress					
-------------------	----	-----	-------------	--	--	--	--	--

Housing Revenue Account

'Provide suitable housing'

'Be a good landlord'

Housing - Property	10	0	To start Q4					
--------------------	----	---	-------------	--	--	--	--	--

Health & Place

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	0.8	To start Q4					
Trade recycling	12	16.3	Final report	No previous report	Good	1	3	2
Trade waste	5	10	Final report	No previous report	Some improvement required	0	6	4

Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

None	-							
------	---	--	--	--	--	--	--	--

City Development

'Deliver good development'

None	-							
------	---	--	--	--	--	--	--	--

Public Realm

'Keep place looking good'

Car Parks	5	0.4	To start Q3					
-----------	---	-----	-------------	--	--	--	--	--

Other

RIPA Administration	2	0.5						
Contingency (special/frauds) including unplanned work	30	24.6						
Follow-ups	10	7.5						
Audit planning and control	40	21.5						
Total	470	253.3						

**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Summary of Work Completed 01 July to 30 Sept 2015

Please note that this is a summary of recommendations only, as to include all recommendations made from each audit report in detail would result in a lengthy document. Members may request a full copy of any report once finalised or alternatively meet with the Audit Manager to discuss specific audits further.

Audit Area	Summary
<p>Creditors – First Half Year</p> <p>Assurance rating: Good ★★★★★</p>	<p>Previously, creditors and the corporate credit cards were audited separately. Testing has now been reviewed and the two separate audits have now been combined into the one audit and will be known collectively as a Creditor Audit. Additionally, testing will be undertaken twice a year, whereas testing was previously undertaken each quarter.</p> <p>The scope of this audit included a review of the following areas:</p> <p>Invoice Checks – reviewing invoices to ensure that they quote all of the relevant information, are arithmetically correct, that VAT has been correctly accounted for and that the invoice has not been paid twice</p> <p>Payments - checking that the amount paid agrees to the value of the invoice</p> <p>Other – as part of the pre-audit meeting Finance requested that Internal Audit look at the number of payments made by cheques rather than by BACS and also late payments</p> <p>As a result of the testing undertaken, a total of 5 medium and 5 low recommendations were made, all of which were accepted by management.</p>
<p>Counter Fraud – National Fraud Initiative Data Matching</p> <p>Assurance rating: Good ★★★★★</p>	<p>The National Fraud Initiative (NFI) began in 1993 when District Audit, in conjunction with representatives of 13 London boroughs ran a pilot exercise to detect housing benefit and student award fraud. Since 1993, the NFI has been expanded and now all local authorities and NHS bodies participate in the initiative. The matching exercise has also been expanded and now includes benefit claimants and council tenants who are not entitled to remain in the UK, incorrectly awarded benefits to those in receipt of student loans, Creditors, Right to Buy and those people who are incorrectly claiming the council tax single persons discount by matching the Council Tax system to the Electoral Register.</p> <p>NFI matching is undertaken every two years. The 2012/13 NFI helped trace almost £203m in fraud, error and overpayments across the UK. Since the initiative started, the programme has helped identify £1.17 billion of fraud or error.</p> <p>For 2014/15 the Council provided the NFI with the requested payroll, housing, taxi driver and creditor data. Other matching data, i.e. benefit claimants and insurance claims was provided by the DWP and the Councils' insurers respectively. The scope of this audit report therefore covers payroll, housing tenants, insurance claims, taxi drivers and creditors.</p>

	<p>With the exception of creditors, all referred matches have been investigated and no fraudulent issues or errors have been identified.</p> <p>The creditor data matching exercise 7 duplicate payments (involving 2 suppliers) totalling £21,406.74 that had not been identified either by the supplier concerned or by an ECC officer.</p>
<p>Equalities & Diversity</p> <p>Assurance rating: Good ★★★★★</p>	<p>Under the Equality Act 2010, public sector organisations have an equality duty. The Equality Duty ensures that public bodies consider the needs of all individuals in their day to day work – in shaping policy, in delivering services, and in relation to their own employees.</p> <p>The Equality Duty covers the following protected characteristics:</p> <ul style="list-style-type: none"> • age • disability • gender reassignment • pregnancy and maternity <p>The Equality Duty has three aims. It requires public bodies to have due regard to the need to:</p> <ul style="list-style-type: none"> • eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act; • advance equality of opportunity between people who share a protected characteristic and people who do not share it; and • foster good relations between people who share a protected characteristic and people who do not share it <p>The scope of the audit was to assess the current level of compliance with the Equalities Framework and identify and report on any gaps found.</p> <p>A total of 4 medium and 5 low recommendations were made all of which were agreed by management. A copy of this report was provided to the Scrutiny task and finish group looking at this issue.</p>
<p>Waste Returns and Recycling Income</p> <p>Assurance rating: Good ★★★★★</p>	<p>The Recycling Credit Scheme was introduced by the Government in 1990 through section 52 of the Environmental Protection Act (EPA). Recycling Credits are intended to incentivise the collection and recycling of household waste for Local Authorities and third parties. They are payments made to an Authority or third party (collector) based on the weight collected and recovered household waste delivered to an approved merchant (recycler).</p> <p>The credit payment typically includes a collection and disposal ‘credit’ which reflects the avoided cost of collecting and disposing of the waste (for the local authority) had it not been recovered.</p> <p>The sale of materials collected for recycling generates important income for the Council. The Council’s policy on markets for collected materials is to:</p> <ul style="list-style-type: none"> - find the best price for collected materials - research, develop and support local alternative markets for materials - ensure that all brokers or re-processors are compliant with National, European and international regulations on the handling and shipping of waste

	<p>The objective of the audit was to check that:</p> <ul style="list-style-type: none"> • the Council is complying with waste regulations and the Council's Financial Regulations • waste returns have been completed and submitted on time. • the correct income is received promptly and the best prices have been obtained <p>A total of 1 high risk, 3 medium risk and 2 low risk recommendations were made all of which were agreed by management. The high risk recommendation related to the raising of invoices where it was found that some invoices had not been raised or the income had not been received. From the sample tested a total value £9842.60 worth of invoices had not been raised and £785.40 of income had still not been received.</p>
<p>Trade Waste Transfer Notes</p> <p>Assurance rating: Some Improvement required ★★★</p>	<p>Exeter City Council provides a comprehensive range of waste management services to help local organisations manage their waste, including collection of general waste, clinical waste and recycling. Any business that produces, handles or disposes of controlled waste has a statutory obligation to ensure it is managed correctly under Duty of Care legislation.</p> <p>Every transfer of waste between two parties must be covered by the appropriate documentation for non-hazardous waste this is a Waste Transfer Note (WTN) and for clinical Waste, a Clinical Waste Transfer Note (CWTN).</p> <p>Waste transfer documents are a legal requirement that must contain certain information including a signature from both parties between whom the waste is being transferred. From 28 September 2011, a transfer must conform to the new requirements laid down by the Waste (England and Wales) Regulations 2011.</p> <p>The objectives of the audit were to check that the Council is complying with the regulations and that procedures are in place to ensure that collections are not made unless a valid completed waste transfer note has been received.</p> <p>A total of 6 medium and 4 low recommendations were made all of which were agreed by management.</p>

This page is intentionally left blank

SIGNIFICANT GOVERNANCE ISSUES PROGRESS REPORT - ANNUAL GOVERNANCE STATEMENT 2014-15

Issue No.	Issue identified	Responsible Officer?	Summary of action proposed	Update Sept 2015	Update December 2015	Update March 2016	Notes
Page 39	1 Risk of Fraud - the risk of fraud is a continual threat to any organisation and all managers and employees need to be proactive in preventing fraud.	Audit Manager	Promote the Counter Fraud Strategy and Counter Fraud Leaflet via City News. Provide Fraud statistics to staff and follow up all allegations	Article in City News 2nd July 2015 provided information on action taken following allegations received. Audit Manager to look at possibility of holding Whistleblowing workshops/exchange briefing item.	Work in progress		
	2 Housing Benefit Data Quality - due to the reduction in quality control checks on housing benefit assessments there has been an increase in the error rate and this has a potential significant impact on the Housing Benefit subsidy received from Government.	Service Improvement Lead (Benefits)	Increased checking resources have been re-introduced into the service.	Housing Benefit Subsidy audit will be undertaken earlier to ensure that checks are being carried out and to identify any potential areas of concern.	Audit testing has now commenced, an update on the outcome of this testing will be given at the next committee meeting.		
	3 Business continuity - Although reported last year, this area is still under review and the Council does not have an agreed Business Continuity process in place leaving the Council at risk of service delivery failure in the event of an incident.	Policy Officer	The Council, with support from Zurich Municipal is developing a detailed Business Continuity Plan. Work is continuing in 2015-16.	No change	Policy Officer attending the first meeting of the SW Local Authorities BC Forum 17.11.15.		
	4 Partnership Working Protocol - the Council currently does not have a protocol for partnership working, as reported in our annual report last year.	Policy Officer	It has been agreed that this will be a priority for the Policy Unit. However, the work is still continuing and not yet complete.	Draft protocol with Policy Unit for review before sending to Monitoring Officer and Section 151 Officer for comment.	Draft protocol has now been reviewed by Section 151 Officer and is with the Monitoring Officer for comment.		
	5 Shared ICT Service - due to the lack of clarity regarding responsibility for providing assurance of internal controls for Strata, it is difficult to provide any form of opinion relating to the Council's ICT service.	AD Finance	Devon Audit Partnership will be providing an internal audit function to Strata, which is intended to provide the assurance required by our own internal audit function.	AD Finance to meet with Devon Audit Partnership 27th August to sign contract and to agree scope of work.	Contract has now been signed. Devon Audit Partnership meeting with Strata 19.11.15		
	6 Separation of Duties - with considerable changes to the structure of the Council as it transforms the way in which services are delivered, separation of duties continues to be an area of concern. There is a risk that inadequate separation of duties could weaken the system of internal control, resulting in an increased risk of irregularities, errors and fraud.	Managers	Managers will continue to review the arrangements for separation of duties as a matter of course. No fundamental weaknesses have yet been identified.	No change	Ongoing monitoring continuing		

This page is intentionally left blank



cutting through complexity

External audit progress report and technical update

Exeter City Council

November 2015

Agenda Item 10

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

Page 42

PROGRESS REPORT					
External audit progress report					3
KPMG RESOURCES					
Governance Arrangement work over the Better Care Fund					5
Better Care Fund Support Programme					6
KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years					7
Audit Committee Institute: Local Government Seminar Series – Winter 2015					8
KPMG publication titled: Value of Audit: Perspectives for Government					9
TECHNICAL UPDATE					
New local audit framework	●	11	NAO report – Local Government New Burdens	●	18
Reporting developments – Infrastructure assets	●	11	NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals	●	18
CIPFA survey on infrastructure assets	●	12	Care Act first-phase reforms – local experience of implementation	●	19
Local Government Association’s 2015 Spending Review submission	●	13	Proposed changes to business rates and core grant	●	19
NAO report – Care Act first-phase reforms	●	14			
Local Audit and Accountability Act 2014: Provisions affecting auditors’ work from 1 April 2015	●	15			
APPENDIX					
Appendix 1 – 2015/16 audit deliverables					24



cutting through complexity

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.

Introduction

We are excited about being your new external auditors and look forward to working with you in the years ahead. Now that our appointment has been formally confirmed, we have started our transition plan.

This document also provides an update on key technical issues that have occurred in the Local Government sector since the last meeting of the Audit Committee.

Transition

We have set up a variety of meetings with key stakeholders, as well as receiving relevant information from the Authority. Since formal appointment we will have:

- Set a date to meet with David Hodgson and his finance team to discuss the detailed practical arrangements to start to formulate an audit plan;
- Met with your previous external auditors to discuss the handover arrangements and the detailed work they performed in relation to audit, VFM and grants work.
- Held discussions with your internal auditors to discuss how we can work together effectively and ensure that we can place maximum reliance on their work; and
- Held discussions with Karime Hassan, Mark Parkinson and David Hodgson to consider key challenges, business risks and opportunities for the Authority.

All of the above will feed into our external audit plan. We are currently waiting for guidance on the Value for Money (VFM) audit approach from the National Audit Office (NAO). The NAO consulted with audit firms over the summer and is currently considering the responses it received. Our understanding is that details of the final proposed approach will be available during mid November. We will need to consider the changes made so that we can incorporate this into your audit plan.

Actions arising from this report

We ask the Committee to NOTE both the work completed and upcoming work outlined above.



cutting through complexity

KPMG resources

Area	Comments
<p data-bbox="64 325 244 476">Governance arrangements work over the Better Care Fund.</p> <p data-bbox="58 544 99 705" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 46</p>	<p data-bbox="292 325 1980 476">The £3.8 billion Better Care Fund (BCF) (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 Spending Round, to ensure a transformation in integrated health and social care. The BCF is a single pooled budget to support health and social care services to work more closely together in local areas. The BCF not only brings together NHS and Local Government resources, but also provides a real opportunity to improve services and value for money, protecting and improving social care services by shifting resources from acute services into community and preventative settings.</p> <p data-bbox="292 498 1949 589">The governance arrangements for the BCF will therefore have to meet the requirements of all partners to achieve economy, efficiency and effectiveness in their use of resources. Each partner will also need to satisfy itself that the pooled budget complies with the requirements of its appropriate code of governance and annual governance reporting guidance.</p> <p data-bbox="292 611 1955 729">Each partner must also satisfy itself that all other regulatory requirements are met – for example, that discrete funding streams are only spent appropriately at a local level. Partners therefore need to make arrangements to ensure that that is happening. Additionally, there will be a requirement for an audit certificate on this expenditure and arrangements need to be in place to ensure appropriate records are kept to provide sufficient audit assurance.</p> <p data-bbox="292 751 1976 811">With this in mind, CCG governing bodies and Local Authority Executives are now considering whether governance arrangements and structures are fit for purpose and will ensure the effective management of the BCF and the pace of development and implementation.</p> <p data-bbox="292 832 1800 858">We are currently carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry:</p> <ul data-bbox="292 879 725 1143" style="list-style-type: none"> ■ Governance arrangements. ■ Engagement and communication. ■ Hosting arrangements. ■ Signed agreement. ■ Performance management. ■ Financial management.

Area	Comments
<p>Better Care Fund Support Programme</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 47</p>	<p>The Better Care Fund Support Programme aims to help areas to overcome the barriers to the successful implementation of the Better Care Fund plans across England in 2015/16. KPMG is one of the partners that successfully bid to deliver the programme, on behalf of NHS England, alongside the Social Care Institute for Excellence ('SCIE'), PPL Consulting and the Berkeley Partnership.</p> <p>The focus has been on practical implementation support to deliver better care for the local population. Support has included:</p> <ul style="list-style-type: none"> ■ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them; ■ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development); ■ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and ■ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners. <p>A number of 'How to guides' have been developed on how to:</p> <ul style="list-style-type: none"> ■ lead and manage Better Care implementation: www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf ■ bring budgets together and use them to develop coordinated care provision: www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf ■ work together across health, care and beyond: www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf <p>The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics:</p> <ul style="list-style-type: none"> ■ Joint working; ■ Section 75 Arrangements – Pooled and unpooled budgets; and ■ Data sharing: <p>More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at www.scie.org.uk/about/partnerships-better-care.asp</p>

Area	Comments
<p data-bbox="64 325 265 539">KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years</p> <p data-bbox="58 546 99 704">Page 48</p>	<p data-bbox="292 325 1999 418">Without a radical programme of house building, average house prices in England could double in just ten years to £446,000 at current prices, according to research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 at current prices by 2034 if current trends continue.</p> <p data-bbox="292 432 1999 496">The research from KPMG and Shelter also reveals that more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own.</p> <p data-bbox="292 511 1999 604">The warning comes in a landmark report from KPMG and Shelter outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament. With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt.</p> <p data-bbox="292 618 1999 682">The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market. It calls on politicians to commit to an integrated range of key measures, including:</p> <ul data-bbox="292 696 1999 1082" style="list-style-type: none"> <li data-bbox="292 704 1999 796">■ giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land; <li data-bbox="292 811 1999 875">■ unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed; <li data-bbox="292 889 1999 953">■ introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building; <li data-bbox="292 968 1999 1003">■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and <li data-bbox="292 1018 1999 1082">■ fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need. <p data-bbox="292 1096 1999 1160">To read the report, visit www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need-programme-2015.aspx</p>

Area	Comments
Audit Committee Institute: Local Government Seminar Series – Winter 2015	<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. Events were held across the UK during October 2015.</p> <p>Due to low attendance levels in the South West, an ACI event was not held. Instead we have attached our presentation for your review and would be happy to answer any questions you may have.</p>

Area	Comments
<p data-bbox="64 315 265 501">KPMG publication titled: <i>Value of Audit – Perspectives for Government</i></p> <p data-bbox="58 544 99 701">Page 50</p>	<p data-bbox="292 315 692 344">What does this report address?</p> <p data-bbox="292 362 1991 486">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 data-bbox="292 505 1984 601">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 data-bbox="292 619 609 648">What are the key issues?</p> <ul data-bbox="292 666 1881 886" style="list-style-type: none"> ■ 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 <p data-bbox="292 905 1976 933">The <i>Value of Audit: Perspectives for Government</i> report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html</p> <p data-bbox="292 952 1929 1009">The <i>Value of Audit: Shaping the Future of Corporate Reporting</i> can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx</p>



cutting through complexity

Technical update

Area	Level of impact	Comments	KPMG perspective
<p>New local audit framework</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 52</p>	<p>● Medium</p>	<p>The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies.</p> <p>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>CIPFA survey on infrastructure assets</p>	<p>● Medium</p>	<p>On 26 August CIPFA sent a letter to Treasurers' Societies and Directors' of Finance groups for onward circulation to authorities drawing attention to CIPFA's survey to assess the readiness of bodies for the introduction of depreciated replacement cost (DRC) for highways infrastructure assets in 2016/17.</p> <p>The letter from CIPFA's Chief Executive is available here: www.cipfa.org/~media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/150826-tia-survey-letter-signed-rw.pdf?la=en</p> <p>The online survey tool can be found here: www.surveymonkey.com/r/NGC8MXH</p> <p>CIPFA is encouraging responses from both accountants and highways engineers, either jointly or separately. The letter has also been sent to the Highways Asset Management and Financial Information Group (HAMFIG) to bring this to the attention of relevant authorities' highways engineers.</p>	<p><i>The Committee may wish to enquire of officers whether the online survey has been completed and any gaps be amended in the project plan</i></p>

Area	Level of impact	Comments	KPMG perspective
<p>Reporting developments – Infrastructure assets</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 53</p>	<p>● Medium</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"> ■ roads, bridges, roundabouts and traffic calming measures; ■ footways, footpaths and cycle tracks; ■ tunnels and underpasses; and ■ water supplies and drainage systems, as they support the assets identified above. <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
<p>The Local Government Association's 2015 Spending Review submission</p> <p>Page 54</p>	<p>● Medium</p>	<p>In June 2015, the Local Government Association (LGA) set out proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament.</p> <p>The submission focusses on five core issues originally highlighted in A Shared Commitment, published in early 2015. The LGA hopes that local government can work with central government to balance the nation's books while improving public services and the local economic environment by delivering new, transformed and high-quality local services while at the same time reducing costs to the public sector.</p> <p>The LGA believes the Spending Review should:</p> <ul style="list-style-type: none"> ■ enable wider integration of social care and health services to deliver savings and improve outcomes This requires the annual £700 million funding gap in social care services to be closed and a transformation fund worth £2 billion in each year of the Spending Review period be created to allow new ways of working to become commonplace. The Spending Review should also implement a single place-based budget for delivering all local services through a Local Public Services Fund as part of at least five devolution deals; ■ promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. The LGA is calling for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including: <ul style="list-style-type: none"> – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ help councils adequately resource and deliver high quality public services by transforming the business rate mechanism and providing a four year local government finance settlement; and ■ help councils focus on driving efficiency and value for money through an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period. 	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>NAO report – Care Act first-phase reforms</p>	<p>● Low</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"> ■ The Care Act 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. ■ 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. ■ 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. ■ 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. ■ The Department might have underestimated the demand for assessments and services for carers. ■ The Department has learned from the problems it encountered in modelling the cost of Phase 1 and has improved its approach for Phase 2. ■ There is variation in the extent to which individual councils might have been over or underfunded. ■ 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. ■ 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. <p>The full report is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms/</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
<p>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015</p> <p>Page 56</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>1) New duty to publish PIRs on audited bodies’ websites</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"> ■ PIRs (relating to the relevant authority or a connected entity); ■ notice of a meeting to consider a PIR/written recommendation; and ■ notice summarising those decisions approved by the auditor as a result of consideration of the PIR/recommendation. <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><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>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 57</p>	<p>● Low</p>	<p>2) Prohibition on disclosure</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>3) Connected entities</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"> ■ the financial transactions, reserves, assets and liabilities of E are to be consolidated into the relevant authority's statement of accounts¹ for the financial year in which that time falls; ■ 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 ■ 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. 	<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>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</p> <p>Page 58</p>	<p>● Low</p>	<p>3) Connected entities (continued)</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"> ■ 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. ■ The right to information and explanation, or to require a meeting, extends in relation to connected entities to: <ul style="list-style-type: none"> – any persons elected or appointed to an entity; – any employee of the entity; and – an auditor of the accounts of the entity. <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
Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<p>4) Power to call for information: exception for legally professionally privileged information</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>
NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals Page 59	<p style="text-align: center;">●</p> <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 www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/</p>	<p><i>The Committee may wish to seek assurances how their Authority fit into the emerging City Deals.</i></p>
NAO report – Local Government New Burdens	<p style="text-align: center;">●</p> <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 www.nao.org.uk/report/local-government-new-burdens/</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>

Area	Level of Impact	Comments
Care Act first-phase reforms – local experience of implementation	<p style="text-align: center;">●</p> <p style="text-align: center;">For Information</p>	<p>This report has been published by the National Audit Office and complements its earlier report on central government’s approach to the Care Act first-phase reforms.</p> <p>This further report provides examples from local case study areas which show how different authorities are addressing risks arising from uncertainty in demand from carers and self-funders.</p> <p>The report was published on 3 August and is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/</p>
Proposed changes to business rates and core grant	<p style="text-align: center;">●</p> <p style="text-align: center;">For Information</p>	<p>The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall.</p> <p>The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that “the way this country is run is broken”.</p> <p>Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved, he said</p> <p>The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at 2p 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>



cutting through complexity

Appendix

Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing of Audit Committee	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	TBC
Interim			
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.	June 2016	TBC
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 2016	TBC
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 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
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.	December 2016	TBC



cutting through complexity

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank