



cutting through complexity

External audit progress report and technical update

Nottingham City Council

February 2016

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

PROGRESS REPORT					
External audit progress report					2
KPMG RESOURCES					
Local Government Technical Update– February 2016					3
TECHNICAL UPDATE					
Accounts and Audit Regulations 2015 – Narrative statements	●	4		Greater Manchester Combined Authority	● 7
Accounts and Audit Regulations 2015 – Exercise of public rights	●	5		Local government pension scheme	● 8
Consultation on 2016/17 audit work programme and scales of fees	●	6		Public Sector Audit Appointments Ltd (PSAA) – VFM profiles update	● 9
APPENDIX					
Appendix 1 – 2015/16 audit deliverables					10

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 & Value for Money	<p><i>We have begun planning for our 2015/16 audit and held initial discussions with your finance team in regard to emerging risk areas such as infrastructure assets (although this is a 2016/17 issue), business rate retention and your MRP policy.</i></p> <p><i>We discussed the initial budget and planned savings for both 2016/17 and 2017/18 with your finance team.</i></p> <p><i>Our full External Audit Plan has been discussed with the Director of Finance and will also be presented at this Audit Committee.</i></p> <p><i>The timetable for the year end accounts production and approval has been discussed with dates agreed by the finance team and KPMG. Due to the changes to the structure of both your finance team and our audit team we have held an introduction meeting so that both teams were briefed on the latest changes which will impact on the audit.</i></p> <p><i>Our interim audit work commenced on the 8th of February.</i></p>

Area	Comments
<p>Local Government Technical Update – February 2016</p>	<p>We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2015/16 close down and statement of accounts.</p> <p>The workshops will be led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh. The agenda will include:</p> <ul style="list-style-type: none"> ■ Review of 2014/15; ■ Key Issues and developments for 2015/16; ■ Longer term developments; and ■ Tax and Pensions specialists. <p>The events are due to take place as follows:</p> <ul style="list-style-type: none"> ■ Leeds – 4 February 2016 ■ Leicester – 5 February 2016 ■ Preston – 8 February 2016 ■ Birmingham – 12 February 2016 ■ London (Canary Wharf) – 22 February 2016 ■ Bristol – 24 February 2016 <p>For more information, please contact Richard Walton. Invites have been sent directly to your finance team.</p>

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Narrative statements	<p style="text-align: center;">● Low</p>	<p>Authorities will need to be aware that the <i>Accounts and Audit Regulations 2015</i> require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states:</p> <p><i>Narrative statements</i></p> <ol style="list-style-type: none"> 1) <i>A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.</i> 2) <i>A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.</i> <p>Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge.</p> <p>The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's <i>Code of Practice on Local Authority Accounting</i> (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.</p>	<p><i>The Committee may wish to seek assurances that their authorities have arrangements in place to meet the new requirements</i></p>

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Exercise of public rights	<p style="text-align: center;">● Low</p>	<p>Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards.</p> <p>Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced.</p> <p>Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place <i>until after the conclusion of the period for the exercise of public rights</i>.</p> <p>As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.</p>	<p><i>The Committee may wish to seek assurances that the necessary arrangements are in place for their Authority.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Consultation on 2016/17 audit work programme and scales of fees</p>	<p>● Low</p>	<p>Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/17 proposed work programme and scales of fees.</p> <p>The consultation sets out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/</p> <p>There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.</p> <p>Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings.</p> <p>PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly.</p> <p>The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.</p> <p>The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.</p>	<p><i>The Committee may wish to seek assurances on how their Authority have responded to the consultation.</i></p>

Area	Level of Impact	Comments
<p>Greater Manchester Combined Authority</p>	<p>● For Information</p>	<p>Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. ‘Devo Manc’ encompasses a broad range of proposals to address the challenges and opportunities GM is facing:</p> <p>Health and Social Care</p> <p>Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care.</p> <p>As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested.</p> <p>GM proposals</p> <p>In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region:</p> <ul style="list-style-type: none"> ■ Investment in transport infrastructure ■ New funding mechanisms to support site remediation and infrastructure provision ■ Making better use of Social Housing Assets to support growth ■ Locally led low carbon ■ A scaled-up GM Reform Investment Fund ■ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance ■ Fundamental review of the way services to children are delivered ■ Research and innovation funding ■ Investment in integrated business support to drive growth and productivity ■ Reform of the New Homes Bonus ■ Further employment and skills reform ■ GM approach to data sharing across public agencies ■ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax <p>All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.</p>

Area	Level of Impact	Comments
Local government pension scheme	<p style="text-align: center;">●</p> <p style="text-align: center;">For Information</p>	<p>Disclosures</p> <p>Following the recent changes to the local government pension schemes (LGPS), a number of disclosure changes are now being made which will impact the Authority's financial statements:</p> <p><i>Fair value measurement</i></p> <p>New accounting standards will apply to pension schemes from 2015/16, The new rules could lead to changes in the way that pensions assets are valued for accounts purposes. From 2016/17, there will also be increased disclosures required on the methods used to value the assets and the assumptions underpinning those methods.</p> <p><i>LGPS Management Costs Code</i></p> <p>CIPFA have recently issued new guidance in form of the LGPS Management Costs Code. This Code provides more detailed guidance on how costs should be accounted for and disclosed, and is designed to promote greater consistency between different LGPS schemes.</p> <p>While not mandated, from 2016/17 CIPFA/LASAAC has recommended that authorities have regard to the guidance to make management expenses clearly understandable by the public. Elements of the Code may be made mandatory for 2017/18.</p> <p>Asset pooling</p> <p>The DCLG document, <i>LGPS: Investment Reform Criteria and Guidance</i>, provides a framework for authorities to develop proposals for pooling assets across different regional schemes. Pools should contain at least £25 billion of scheme assets, to achieve economies of scale, strong governance, reduce costs and improve capacity to invest in infrastructure.</p> <p>Administering authorities will have to explain the benefits of pooling scheme assets, explain how investments will be managed and governed, and provide assurances that these mechanisms are appropriate.</p> <p>A copy of the document can be found on the DCLG website at https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</p>

Area	Level of Impact	Comments
<p>Public Sector Audit Appointments Ltd (PSAA) – VFM profiles update</p>	<p>● For Information</p>	<p>Public Sector Audit Appointments Ltd (PSAA) maintain the Value for Money profiles tool (VFM profiles) initially developed by the Audit Commission. The profiles were updated on 1 October 2015.</p> <p>The VFM profiles planned budget section now contains the 2015/16 data sourced from the Department for Communities and Local Government – General Fund Revenue Account Budget (RA). The values are adjusted with gross domestic product (GDP) deflators from the HM Treasury's publication in June 2015. The profiles can be accessed through the PSAA's homepage at http://www.psa.co.uk/</p> <p>Other sections of the VFM profiles have also been updated with the latest data values for the following data sources:</p> <ul style="list-style-type: none"> ■ Inequality gap (2012/13) ■ Fuel poverty (2013) ■ Climate change (2013) ■ Alcohol related admissions (2013/14) ■ Mid-year population estimates (2014) ■ Chlamydia testing (2014) ■ Participation in education or work-based learning (2014) ■ Housing benefit speed of processing (2014/15) ■ CT and NNDR collection rates (2014/15) ■ NHS health checks (2014/15) ■ Planning applications (Quarter 4 2014/15) ■ Delayed transfers of care (Quarter 1 2015) ■ Under 5 provision (2015)

Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	February 2016 Audit Committee
Interim			
Interim report if required	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.	March 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



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