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External audit progress report and technical update

Nottingham City Council

May 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

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Progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	<p>Since the last Audit Committee in February we have completed the majority of our interim audit work to confirm controls are in place to facilitate the production of the annual accounts. As part of this work we have:</p> <ul style="list-style-type: none"> • reviewed the design and implementation of significant financial systems and assessment of the financial control environment, including addressing any gaps in assurance. For 2015/16, across our client base, we have increased the work performed at interim to obtain a more granular understanding of systems feeding into the key financial statements. This is in response to the increasing localisation of risk and the increasing financial pressure on the sector. Placing more reliance on controls where possible will produce efficiencies for our final accounts visit. For 2015/16 our interim visit included an increased focus on council tax, business rates, and housing benefits systems due to the inherent complexities of these systems. Where we identify significant risks or do not gain the planned level of assurance from our work, we report to management and those charged with governance. We will report the findings from our work to the Audit Committee in July, but can confirm that there is nothing that causes us significant concern at this stage; • reviewed and considered internal audit work completed to date for 2015-16. We have also met with the Head of Internal Audit and Internal Audit Manager, and will continue to engage in periodic liaison meetings. This will help reduce the risk of duplication and we will continue to use internal audit work to inform our risk assessment and work plan throughout our audit; • reviewed the Authority's Minimum Revenue Provision proposal, this will be followed up as part of our year-end accounts visit; • reviewed the appropriateness of your arrangements for the prevention and detection of fraud and corruption in accordance with ISA240 (the responsibility to consider fraud), including discussing this with internal audit. • noted an improvement in the completeness and quality of working papers presented to us by the finance team to support out interim work. This helped expedite our work and reduced the number of queries we raised during our visit. At this stage we are satisfied that the Authority has robust plans in place for the preparation of its financial statements leading to the submission of the draft accounts by 30 June 2016. <p style="text-align: right;"><i>(continued overleaf)</i></p>

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Area of responsibility	Commentary
Financial statements (cont.)	<ul style="list-style-type: none"> utilised our IT specialists to perform work over the General IT Control Environment in which the Authority's General Ledger (Oracle) is managed. This work has included working closely with staff at East Midlands Shared Service. Undertaking this work will add additional efficiencies to our year-end audit work, and will enable us to review balances using data analytics. shared a detailed prepared by client (PBC) list with finance staff and this sets out the requirements for a smooth and efficient year-end audit. Our PBC supports the Authority in producing the good quality working papers we need at the start of the audit. set-up the Authority on our K-Central website. K-Central facilitates the sharing of working papers, query logs and reports etc between the audit and Authority's finance teams, to help improve the flow, access and transparency of information; and noted the Authority's dates for public inspection of the draft annual accounts.
Value for Money	<p>Below we have provided an updated upon the work undertaken against our three VFM risks included within our External Audit Plan presented to the Committee in February;</p> <ul style="list-style-type: none"> Delivery of Saving Plans – On 11 April we met with the interim director of HR and Transformation to gain further insight into the work being undertaken by the Authority in delivering its current savings plan and developing medium term plans. Better Care Fund - Commenced our working reviewing the governance arrangements underpinning Better Care Fund and the reported progress made to date. This has included reviewing the papers and minutes from the Health and Wellbeing Commissioning Sub-committee and interviewing key staff New possible group entity – Adducere – we have utilised one of our specialist to review and assess the potential risks surrounding the proposed funding structure for the Bio-science Facility in Nottingham. His observations have been fed back to officers for consideration and there are no issues we wish to flag to the Committee. We will provide a more comprehensive update on our assessment to the Committee in July. <p style="text-align: right;"><i>(continued overleaf)</i></p>

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Certification of claims and returns	<p>We have undertaken certification work in regards to:</p> <ul style="list-style-type: none"> Local Transport Plan Major Projects Return (Form S31AUD). The fieldwork for this work has been completed and undergoing final review. At this stage we have not identified any issues which need to be reported to the Committee. We anticipate issuing our opinion by the required deadline at the end of this month. The work was completed in line with the Department for Transport's certification instructions.
Other work	<p>Since the last Audit Committee in February we have:</p> <ul style="list-style-type: none"> discussed with the Authority undertaking an additional piece of work assessing the level of risk exposure associated with the Council's investment with Robin Hood energy; issued to the Authority the results from our Local Government Budget Holder survey. We have provided more details on page 7; held our Local Government Early Close Workshop at our Leicester Office on 7 March 2016, this was attended by members of the finance team who have responsibility for compiling the annual accounts. The Seminar focussed on steps the council needs to being considering ahead of the earlier accounts submission deadlines which will come into effect in 2017/18.



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KPMG resources

Area	Comments
<p>KPMG Local Government Budget Survey</p>	<p>KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including:</p> <ul style="list-style-type: none"> ■ The content of budget monitoring reports; ■ Savings plans; ■ Invest-to-save projects ■ The type of savings being made; ■ Assumptions underlying the medium term financial plan; and ■ Reserve movements. <p>The Survey also poses questions for management and members to consider when reviewing their budget setting and budget monitoring processes.</p> <p>For more information, and a copy of the report, please contact Tom Tandy, External Audit Manager at thomas.tandy@kpmg.co.uk.</p>

Area	Comments
<p>KPMG publication titled: Value of Audit – Perspectives for Government</p>	<p>What does this report address?</p> <p>This report builds on the <i>Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting</i> – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.</p> <p>Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.</p> <p>What are the key issues?</p> <ul 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>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>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>



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Technical update

Area	Level of Impact	Comments	KPMG perspective
Capital receipts flexibility	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<p>The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary:</p> <ul style="list-style-type: none"> ■ the flexibility is available from 1 April 2016 to 31 March 2019; ■ only capital receipts generated during that period can be used for the flexibility; ■ the Secretary of State’s direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period; ■ authorities will not be allowed to borrow to fund revenue expenditure on service reform; and ■ authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility. <p>We understand that DCLG’s aim is that the final signed direction will be issued with the final settlement in February 2016.</p> <p>A copy of the draft guidance can be found at www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility_-_draft_statutory_guidance_and_direction.pdf</p>	<p><i>The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.</i></p>

Area	Level of Impact	Comments	KPMG perspective
Better Care Fund policy framework 2016/17	<p style="text-align: center;">● Low</p>	<p>The Department of Health, in conjunction with the Department for Communities and Local Government, has recently published <i>2016-17 Better Care Fund planning guidance</i>.</p> <p>The guidance introduces a number of changes, requiring local clinical commissioning groups (CCGs), councils and providers to establish risk sharing arrangements to fund unplanned emergency admissions. Local areas will also have to agree to ‘stretching’ local targets for cutting delayed transfers of care supported by an action plan.</p> <p>The guidance can be found here: www.gov.uk/government/publications/better-care-fund-how-it-will-work-in-2016-to-2017</p>	<p><i>The Committee may wish to seek assurances how their Authority is developing these arrangements.</i></p>
PSAA update – VFM profiles March 2016 release	<p style="text-align: center;">● For Information</p>	<p>Public Sector Audit Appointments Ltd (PSAA) updated its Value for Money Profiles Tool (VFM profiles) on 3 February 2016.</p> <p>The VFM profiles have been updated with the 2014-15 data sourced from the Department for Communities and Local Government – General Fund Revenue Outturn Budget (RO). The values are adjusted with gross domestic product (GDP) deflators from HM Treasury’s publication in November 2015. The profiles can be accessed through the PSAA website at www.psaa.co.uk/</p>	
Cities and Local Government Devolution Act 2016	<p style="text-align: center;">● For Information</p>	<p>Authorities will wish to note that the Cities and Local Government Devolution Act 2016 received Royal Assent on 28 January 2016. The Act provides the enabling legislation to:</p> <ul style="list-style-type: none"> ■ allow for the election of mayors for a combined authority area; ■ allow for the devolution of functions, including transport, health, skills, planning and job support; and ■ provide a power to establish sub-national transport bodies which will advise the Government on strategic schemes and investment priorities in their own area. <p>Most of the changes under the Act, including the implementation of ‘devolution’ deals, will be implemented by Orders to be made under the Act.</p>	



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Appendix

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	February 2016	Complete
Interim			
Interim feedback	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 Authority's arrangements for securing value for money in the use of its resources.	July 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 Authority'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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