



Audit Committee Progress Report

External Audit

Nottingham City Council

July 2017

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

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

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

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

 High impact  Medium impact  Low impact  For information

External audit progress report

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

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

Area of responsibility	Commentary
Financial statements and Value for Money	<p>Since the last Audit Committee in April we have;</p> <ul style="list-style-type: none"> — commenced our final accounts audit visit on 12 June 2017. We have prioritised key areas of audit focus such as land and building valuations, payroll costs, and the Authority’s pension’s valuation. The Authority provided us with a complete draft set of accounts and supporting working papers inline with agreed timescales, which has helped the audit progress as planned. We will communicate to the Committee our key findings in September via our ISA 260 report. — as part of our Value for Money work we are required to update our assessment throughout the year. Should any new issues present themselves then we are required to report against these in our ISA260 report. This will summarise any specific matters arising, and the basis for our overall conclusion. As part of final accounts work we have identified a potential new Value For Money risk to our audit in regards to the Authority’s wider Group structure, which is requiring us to undertake additional audit procedures. We will provide a verbal update to committee on this matter.
Certification of claims and returns	<p>We have;</p> <ul style="list-style-type: none"> — commenced our housing benefits audit work. We have provided the authority with our initial testing samples. On the back of last year’s audit there is a significant amount of testing required to understand if errors identified in 2015/16 are still prevalent within the 2016/17 claim. We hope that commencing the testing earlier than in prior years will allow us to complete the audit testing in line with required timescales, but wish to highlight to the Committee that there is significantly more work for both officers and ourselves to perform this year.



Technical developments

Highways Network Assets

Level of impact: ● (Medium)	KPMG perspective
<p>On Wednesday 8 March 2017, the CIPFA/LASAAC Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. This follows its decision in December 2016 to delay the implementation until at least the 2017/18 financial year.</p> <p>The Board took the decision not to proceed because the benefits are outweighed by the costs of implementation for local authorities. Another factor was the absence of central support for key elements of the valuation.</p> <p>The update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the accounting code) has also been issued which confirms the removal of the requirement for 2016/17.</p> <p>Further information can be found on the CIPFA website at www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/ifrsbased-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-the-code</p>	<p><i>The Committee should familiarise themselves with the key changes.</i></p>

100% Business Rates Retention - Department for Communities and Local Government (DCLG) consultation & update post-election

Level of impact: ● (Medium)	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has launched a further consultation on its proposals for 100% retention of business rates by the local government sector. This consultation is part of DCLG's ongoing process of engagement and collaboration on the design of reforms. It seeks views on some of the detailed aspects of the design of the reformed system, including:</p> <ul style="list-style-type: none">— the operation of partial resets;— how to measure growth over a reset period;— plans for business rate pooling and local growth zones;— how to best move to a centrally managed appeals risk system;— the approach to tier splits;— the operation of a future safety net; and— proposals for the central list. <p>The consultation closed on Wednesday 3 May 2017. Details are available on the web-site at www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system</p> <p>POST ELECTION UPDATE</p> <p>Post the election, there is now uncertainty about the way forward on business rates. We understand that a steering group which spent the last 15 months consulting on how 100% business rates retention would work has been disbanded after the exclusion of local government finance legislation in the recent Queen's Speech.</p>	<p><i>The Committee should discuss with officers the potential impact of the proposals on the Council and the actions that may need to be taken to address the challenges presented. This now includes the post-election uncertainty .</i></p>

NAO Report – Planning for 100% local retention of business rates

Level of impact: ● (For Information)

The NAO has recently published a report on *Planning for 100% local retention of business rates*. The report finds that the Department for Communities and Local Government (DCLG) has made good progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.

DCLG's core objectives for the scheme, due to start in 2019/20, are to drive local economic growth, and to promote financial self-sufficiency for English local government. The NAO report, however, raises questions as to whether DCLG's current planning approach is best configured to deliver a scheme capable of meeting those objectives fully.

By allowing local authorities to retain 100% of business rates, DCLG hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. The report finds that these issues have not been fully examined in DCLG's work to date. Crucially, DCLG has not looked in detail at whether the current scheme, in which authorities retain 50% of business rates, has promoted pro-growth behaviour in authorities.

DCLG is promoting financial self-sufficiency in the sector through the 100% local retention scheme in the context of a long-term reduction in local authority funding. DCLG is reviewing the relative distribution of funding in the sector through a Fair Funding Review, but there is not scheduled to be a Spending Review in which the absolute level of funding in the sector is reviewed, until after the 100% scheme is operational. In this context, the report highlights the risk of implementing a 100% local rates retention scheme that might be technically sound but lacks sufficient funding for the sector to deliver its statutory functions.

The report recognises that DCLG is managing a complex project, involving extensive sector engagement, and made good progress. The NAO, however, found clear risks to the timely delivery of the 100% scheme. Many significant and challenging issues remain outstanding, such as delivering the Fair Funding Review. Some slippage on meeting milestones to date, constraints on DCLG's resources, and DCLG's intention to concentrate important decisions in a short space of time towards the end of the timetable create the potential for pressure in the late stages of the project. The NAO highlights the risk that the pressure to deliver by 2019/20 could result in a scheme that has not been fully tested. The report also stresses the need for DCLG to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.

A copy of the report can be found on the NAO website at www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates

NAO Report - Housing in England: overview

Level of impact: ● (For Information)

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. The report notes that in recent years grown faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015/16. The most significant element of this is housing benefit. In 2015/16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market.

The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010/11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

The report is available from the NAO website at www.nao.org.uk/report/housing-in-england-overview

Technical developments

Comptroller and Auditor General (C&AG) keynote speech: 'The implications of central decision-making on the delivery of frontline services'

Level of impact: ● (For Information)

The Comptroller and Auditor General (C&AG), Sir Amyas Morse, recently gave a keynote speech on *The implications of central decision-making on the delivery of frontline services* at the Strand Group, the Policy Institute at King's College London's signature seminar series.

Drawing on his unique perspective looking across the whole of the public sector, the C&AG explored some of the elements of strategic financial management and planning that influence the success of major reform programmes in connected systems.

The speech examined how central government introduces reforms to locally delivered services to achieve its policy objectives, and the effect of its approach on funding, budgeting and efficiency.

Using the examples of local government, adult social care, and the NHS in England, the C&AG argued that the focus of local public services has shifted from providing 'more for less' to providing 'less for less', and that the lack of joined-up decision-making and funding arrangements between connected systems can often lead to consequences such as:

- unforeseen conflicting objectives for local bodies;
- cost shunting between parts of connected systems; and ultimately; and
- risks of financial, or service, failure locally.

The C&AG explained how year-on-year funding reductions can impact on the accessibility and quality of the services provided, not only for the local government sector, but across the health and social care system more widely.

The C&AG concluded that central government can do more to understand how assumptions about the efficiencies that may be available are likely to affect their objectives across public services, to help them promptly manage major risks. He urged those in the centre to do more to look outside of their 'silos' to understand the complexity and interconnectedness of the environment they are seeking to reform.

Finally, he encouraged central government to work more closely with local bodies to ensure that funding and decision-making arrangements drive not only economy and efficiency, but also effectiveness.

The full transcript of the speech is available on the NAO website at www.nao.org.uk/wp-content/uploads/2017/02/CAG-speech-Kings-College-London-070217.pdf

Technical developments

Public Sector Audit Appointments - Updated terms of appointment and statement of responsibilities published

Level of impact: ● (For Information)

On 23 February 2017, Public Sector Audit Appointments Ltd (PSAA), issued the revised document *Terms of Appointment: Principal Local Authorities and Police Bodies*. There are minimal changes the document issued in September 2015 the re-write is intended to clarify or simplify the arrangements within the document.

PSAA has also issued an updated *Statement of Responsibilities of audited and audited bodes Principal Local Authorities and Police Bodies* applicable for 2017/18. The Statement explains where the differing responsibilities of auditors and of audited bodies begin and end, and sets out what auditors should expect of the audited bodies in certain areas. The Statement is consistent with those issued previously, but removes references to local NHS bodies and smaller authorities.

Both documents are available on the PSAA's website at www.psa.co.uk/appointing-auditors/terms-of-appointment/



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2017	Complete
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2017	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 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	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 2017	TBC



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