



External Audit: Progress Report and Technical update

Nottingham City Council

April 2018

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This report provides the Audit & Corporate Governance Scrutiny 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

External audit progress report

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

Area of responsibility	Commentary
Financial statements and VfM	<p>Since the last Audit Committee in January 2018 we have completed the majority of our interim audit work and have continued to liaise with management over the significant financial and operational issues at the Council.</p> <p>As part of our work we have:</p> <ul style="list-style-type: none"> • updated our risk assessments, including those covering accounting estimates, fraud, IT, service organisations and other aspects of the general control environment; • reviewed the design and implementation of significant financial systems and have tested the operation of controls within those systems; • reviewed and considered internal audit work completed to date for 2017-18. We have also met with the Head of Internal Audit to discuss key risks facing the Authority; • completed our IT General Controls testing. In line with last year our IT specialists have reviewed and tested the design and operation controls underpinning the Authority's general ledger system (Oracle) and the Northgate system, allowing us to rely on system generated reports; • carried out work over the restatement of income and expenditure over the Comprehensive Income and Expenditure Statement; • shared with the Authority our working paper requirement (PBC) both for work that can be brought forward in advance of final accounts audit visit and for the final accounts audit visit which is due to commence w/c 28 May 2018; and • have begun early testing in advance of our final accounts audit visit. <p>In addition to this we have identified that the Authority has around £0.6 million of listed debt on the London Stock Exchange (LSE) resulting in additional requirements in our audit approach. This has been included as a separate document for discussion on the agenda for this meeting along with our finalised 2017/18 External Audit Plan.</p> <p>We have not yet been able to complete our certification work on the 2016/17 Housing Benefits claim due to the volume of work resulting from the errors detected in the samples. The certification deadline was 30 November 2017.</p>



Technical developments

NAO Report – PF1 and PF2

Level of impact: ● (For Information)	KPMG Perspective
<p>In January 2018 the NAO published a report on Private Finance Initiative (PFI) and the introduction of a reformed model of the PFI called PF2.</p> <p>There are currently over 700 operational PFI and PF2 deals, with a capital value of around £60 billion, and annual charges for these deals amounted to £10.3 billion in 2016-17.</p> <p>The report presents information on the rationale, costs, benefits, use, and the impact of PFI, and discusses the extent to which it may be able to make savings from existing PFI contracts. The report also highlights some of the reasons for PFI reform and the introduction of PF2.</p> <p>The report does not suggest whether or not the PFI and PF2 models deliver value for money, but highlights the costs and benefits of entering into PFI and now the PF2.</p> <p>A copy of the report can be accessed from the NAO website at the following link:</p> <p>https://www.nao.org.uk/report/pfi-and-pf2/</p>	<p>Those charged with governance may wish to consider the costs and benefits of entering into PFI and PF2 arrangements.</p>

Technical developments

Statutory Guidance for Local Authority Investments and the Minimum Revenue Provision

Level of impact: ● (For Information)

The Ministry of Housing, Communities and Local Government (MHCLG) has published its summary of responses to the consultation regarding Local Authority investments and the minimum revenue provision.

The guidance on minimum revenue provisions (MRP) applies for accounting periods starting on or after 1 April 2019, with the exception of paragraphs 27-29 of the guidance ("Changing methods for calculating MRP"), which apply from accounting periods starting on or after 1 April 2018.

The investment guidance also applies from accounting periods starting on or after 1 April 2018.

A copy of the responses can be found at the following link:

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

CIPFA Statement on Northamptonshire County Council being the subject of a Section 114 Notice

Level of impact: ● (For Information)

In February 2018 the Council's S151 officer issued a 'section 114 notice' (under the Local Government Finance Act 1988) banning all new expenditure at Northamptonshire County Council, with the exception of statutory services for protecting vulnerable people. Further to this an advisory notice (under Section 29 of the Audit and Accountability Act 2014) was issued to the Council by its external auditor which highlighted concerns about the authority's proposed budget and what they claim was an over-reliance on the use of capital receipts.

CIPFA's statement says that the news that Northamptonshire County Council is the subject of a Section 114 Notice is not surprising for three reasons.

First, the local government sector is under enormous strain following significant resource reductions since 2010. CIPFA has advised both the Ministry of Housing, Communities and Local Government (MHCLG) and the LGA that we are likely to see other councils reach this point in the two to three years if the government does not provide a more sustainable framework for local government finances.

Secondly, in the specific case of Northamptonshire, it is a council that has traditionally received tight resources and has generally been a low-cost authority. An adverse OFSTED report placed the corporate position under strain. At the same time the number of elderly people has risen, creating budget pressures.

Thirdly, the county's transformation programme, though innovative, has not yielded sufficient savings and the council depleted its reserves in an unwise manner without alternative compensatory savings of the order needed. However, we have seen other councils suffering the same general and specific strains manage their budgets more effectively. With Northamptonshire, it appears to have now deteriorated too far for the council to be able to manage its finances and government intervention is likely to be needed to set a path for the future.

CIPFA's statement can be found at the following link:

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/sustainability-of-the-nhs-is-reliant-on-upfront-investment,-robust-governance-and-awareness-of-risk>

In 2016 CIPFA issued a helpful briefing which looks at what it means to have a balanced budget, what factors have a negative impact on the finances, the impact of a spending freeze and what happens if a Section 114 notice is implemented. The briefing can be found at:

<http://www.cipfa.org/policy-and-guidance/reports/balancing-local-authority-budgets-and-section-114-notices>

Financial sustainability of local authorities in 2018

Level of impact: ● (For Information)

This report reviews developments in the sector and examines whether The Ministry of Housing, Communities & Local Government (the Department) along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities. NAO reported on the financial sustainability of local authorities in 2013 and 2014. This report updates and builds on that work and draws out the following main conclusions for the Department and Wider Government:

The Department

The NAO concluded that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased:

- Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.
- The current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014. The financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.
- The Department's performance had improved since the NAO's last study. However, conditions in the sector have worsened and the Department must continue to strengthen its oversight and assurance mechanisms to protect against risks to value for money from financial failure in the sector. It must also set out at the earliest opportunity a long-term financial plan for the sector that includes sufficient funding to address specific service pressures and secure the sector's future financial sustainability.

Wider government

The NAO points out that the Department's capacity to secure the sector's financial sustainability in the context of limited resources is shaped by the priorities and agendas of other departments. The NAO concludes that the Department's improvements in understanding and oversight are necessary but not enough. Equally, because responsibility for services is dispersed across departments, each department has its own narrow view of performance within its own service responsibilities. There is no single central understanding of service delivery as a whole or of the interactions between service areas. The NAO points out that to date, the current spending review period has been characterised by one-off and short-term funding fixes. Where these fixes come with restrictions and conditions, this poses a risk of slowly centralising decision-making. This increasingly crisis-driven approach to managing local authority finances also risks value for money.

continued overleaf

Financial sustainability of local authorities in 2018 (cntd.)

Level of impact: ● (For Information)

NAO states that the current trajectory for local government is towards a narrow core offer increasingly centred on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources. The implications for value for money to government from the resulting re-shaping of local government need to be considered alongside purely departmental interests. Departments need to build a consensus about the role and significance of local government as a whole in the context of the current funding climate, rather than engaging with authorities solely to deliver their individual service responsibilities.

A copy of the report and other related publications can be found on the NAO website at <https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

Round-up for Audit & Corporate Governance Scrutiny Committees

Level of impact: ● (For Information)

This interactive round-up of NAO publications is intended to help Audit & Corporate Governance Scrutiny Committees, Boards and other users by outlining the latest NAO resources for governance and oversight, risk management and strategic management issues. It also sets out how to keep in touch with NAO insight on specific issues and/or sectors. It is published each autumn and spring, covering NAO publications over the previous six months.

The March 2018 edition can be found at the following link:

<https://www.nao.org.uk/report/round-up-for-audit-committees/>

The publication includes useful articles on:

- Cyber Security
- Managing Conflicts of Interest
- Contract and Programme Management, including insights and examples from NAO work relating to: managing contracted-out service delivery; commercial capability; and managing markets.

CIPFA Bulletin 01 Closure of the 2017/18 Financial Statements

Level of impact: ● (For Information)

This bulletin covers the closure of accounts for the 2017/18 year and provides further guidance and clarification to complement the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2017/18 Code Guidance Notes.

The Bulletin covers:

- Changes to the 2017/18 accounts closure timetable
- Guidance relating to:
 - Accounting for the Apprenticeship Levy
 - Accounting standards that have been issued but have not yet been adopted
 - The item 8 debit/credit determination (housing authorities only)
 - 'Going Concern' basis of accounts
 - Other changes introduced by the 2017/18 Code

The Bulletin also provides a briefing on the anticipated changes to the 2018/19 Code and future years' Codes.

<http://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-01-closure-201718>



Appendix

Appendix 1

2017/18 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	April 2018	April
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.	July 2018	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).	July 2018	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	August 2018	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 2018 (dependent on HB Claim completion)	TBC



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