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# External audit progress report and technical update

**Bolsover District Council**

November 2015

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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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
<b>Financial statements</b>	<p>We have concluded our work on the 2014/15 financial statement audit.</p> <p>We have commenced our planning and risk assessment procedures for 2015/16 audit.</p> <p>We will be holding meetings with key officers at the Authority to identify the key issues that will contribute to our planning approach and further discussions with the Finance team. Following this we will issue our External Audit Plan for 2015/16 which will be presented to Audit Committee.</p>
<b>Value for Money</b>	<p>The National Audit Office is responsible for the Code of Audit Practice and have recently issued their revised guidance on the Value for Money (VFM) audit approach following a consultation process. We are in the process of understanding the impact that this will have on our Value for Money conclusion work for 2015/16 and will discuss the approach with key officers at the Authority.</p>
<b>Certification of claims and returns</b>	<p>We are currently undertaking certification work on the Authority's Housing Benefit Subsidy grant claim and the Pooling of Housing Capital Receipts Return. We expect to meet the deadline of 30 November 2015.</p>

Area	Comments
<p><b>KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years</b></p>	<p>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>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>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>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 style="list-style-type: none"> <li>■ 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> <li>■ 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> <li>■ 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> <li>■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and</li> <li>■ 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.</li> </ul> <p>To read the report, visit <a href="http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need-programme-2015.aspx">www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need-programme-2015.aspx</a></p>

Area	Comments
<p><b>KPMG publication titled: Value of Audit – Perspectives for Government</b></p>	<p><b>What does this report address?</b></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 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><b>What are the key issues?</b></p> <ul style="list-style-type: none"> <li>■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.</li> <li>■ The importance of trust and independence of government across different markets.</li> <li>■ How government audits can provide accountability thereby enhancing the government’s controls and instigating decision-making.</li> <li>■ The importance of technology integration and the issues that need to be addressed for successful implementation</li> <li>■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits</li> </ul> <p>The <i>Value of Audit: Perspectives for Government</i> report can be found on the KPMG website at <a href="https://home.kpmg.com/xx/en/home/insights.html">https://home.kpmg.com/xx/en/home/insights.html</a></p> <p>The <i>Value of Audit: Shaping the Future of Corporate Reporting</i> can be found on the KPMG website at <a href="http://www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx">www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx</a></p>
<p><b>Audit Committee Institute: Local Government Seminar Series – Autumn 2015</b></p>	<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 Autumn Local Government sessions in October 2015 were led by specialists from our dedicated Local Government practice and focused on hot topics such as Audit Procurement, Cyber Crime, Early Accounts Closure, Infrastructure Assets and Internal Audit thought Leadership.</p> <p>Our next event is currently being arranged for early 2016.</p>

Area	Level of impact	Comments	KPMG perspective
<b>New local audit framework</b>	 <b>Medium</b>	<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 such as North Kesteven District Council.</p>	<p><i>We understand guidance is being prepared by CIPFA on the request of the NAO.</i></p> <p><i>We will also be preparing a briefing note for clients.</i></p>
<b>CIPFA survey on infrastructure assets</b>	 <b>Medium</b>	<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:  <a href="http://www.cipfa.org/~/-/media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/150826-tia-survey-letter-signed-rw.pdf?la=en">www.cipfa.org/~/-/media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/150826-tia-survey-letter-signed-rw.pdf?la=en</a></p> <p>The online survey tool can be found here: <a href="http://www.surveymonkey.com/r/NGC8MXH">www.surveymonkey.com/r/NGC8MXH</a></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><b>The Local Government Association's 2015 Spending Review submission</b></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 href="#">A Shared Commitment</a>, 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"> <li>■ 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;</li> <li>■ 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"> <li>– the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21</li> <li>– a central-local partnership to deliver effective and targeted skills and employment initiatives</li> <li>– unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament.</li> </ul> </li> <li>■ 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</li> <li>■ 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.</li> </ul>	<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
<b>Reporting developments – Infrastructure assets</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Medium</b></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"> <li>■ roads, bridges, roundabouts and traffic calming measures;</li> <li>■ footways, footpaths and cycle tracks;</li> <li>■ tunnels and underpasses; and</li> <li>■ water supplies and drainage systems, as they support the assets identified above.</li> </ul> <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><b>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015</b></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 auditors 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><b>1) New duty to publish PIRs on audited bodies’ websites</b></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"> <li>■ PIRs (relating to the relevant authority or a connected entity);</li> <li>■ notice of a meeting to consider a PIR/written recommendation; and</li> <li>■ notice summarising those decisions approved by the auditor as a result of consideration of the PIR/recommendation.</li> </ul> <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><b>2) Prohibition on disclosure</b></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><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>● Low</p>	<p><b>3) Connected entities</b></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"> <li>■ the financial transactions, reserves, assets and liabilities of E are to be consolidated into the relevant authority’s statement of accounts for the financial year in which that time falls;</li> <li>■ 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</li> <li>■ 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.</li> </ul> <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"> <li>■ 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.</li> </ul>	<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><b>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</b></p>	<p>● Low</p>	<p><b>3) Connected entities (continued)</b></p> <ul style="list-style-type: none"> <li>■ The right to information and explanation, or to require a meeting, extends in relation to connected entities to:               <ul style="list-style-type: none"> <li>– any persons elected or appointed to an entity;</li> <li>– any employee of the entity; and</li> <li>– an auditor of the accounts of the entity.</li> </ul> </li> </ul> <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><b>4) Power to call for information: exception for legally professionally privileged information</b></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>

Area	Level of Impact	Comments
<p><b>Proposed changes to business rates and core grant</b></p>	<p>● <b>For Information</b></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>

## Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
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	TBC
<b>Substantive procedures</b>			
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 VFM arrangements.	September 2016	TBC
<b>Completion</b>			
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.	October 2016	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	January 2016	In progress



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