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External audit progress report and technical update

Lincolnshire County Council

June 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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Progress report

This document provides the Audit Committee with a high level overview on our external audit planning.

At the end of each stage of the audit we issue certain deliverables, including

reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.

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<p>Audit Plan 2014/15</p>	<p>We presented our detailed annual plan to the Audit Committee in March 2015. This highlighted the key risks to our audits of the County Council and Pension Fund accounts at the planning stages, the first two of which are standard risks for all organisations;</p> <ul style="list-style-type: none"> • Management override of controls; • Fraudulent revenue recognition; • Accounting for local authority maintained schools; and • Local government Pension Scheme reform. <p>We also highlighted the risks around the ongoing changes to the Council's financial systems and support services provider, and the changes in the provider of the pension fund administration services, from 1 April 2015.</p> <p>In April we completed our interim audit visit where we carried out audit testing on a number of controls, including those around journals, bank reconciliations, payroll, pensions and fixed assets. There are no 2014/15 internal control issues arising from this work that we need to bring to the Audit Committee's attention.</p> <p>We have reviewed the Council's in-year financial position and the 2015-16 budget and medium term financial outlook. We have discussed with managers the arrangements for managing the changes to the Council and Pension Fund financial systems and the support services providers, and monitored progress. We will continue to review progress and take our findings and conclusions into account in the Value for Money Conclusion assessment which we will report to the Audit Committee in September 2015.</p> <p>We have continued to discuss with managers the 2014/15 financial reporting arrangements and specific accounting issues, including the key risks identified above. We have agreed a timetable and approach which takes into account the 1 April 2015 financial systems change from SAP to Agresso. The detailed on-site work is due to start 15 June 2015. There is nothing that we need to raise with the Audit Committee in relation to the audit of the accounts from the work we have carried out to date.</p>
<p>Audit fee update</p>	<p>At this stage the proposed audit fee remains the same as that notified to the Authority in March 2015, that is £143,100 for the Council's audit and £24,350 for the Pension Fund. We will discuss with managers the fee implications of the additional work required to address the key risks identified for this year and will report any agreed additional fees in our Annual Governance Report to the September Audit Committee.</p>
<p>Other work</p>	<p>We were engaged to work with the staff of the Learners with Learning Difficulties and/or Disabilities Team' to support them in their review and analysis of their High Needs Students services. We have fed back our findings and conclusions to the relevant service managers and there are no issues we need to raise with the Audit Committee.</p> <p>We have discussed with managers the arrangements for submitting the 2014/15 Teachers' Pension Return and we expect to again issue an Independent Accountant's 'Reasonableness Assurance Report' later in the year. The deadline for this work is 30 November 2015.</p>



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KPMG resources

Area	Comments
<p>Governance Arrangements work over the Better Care Fund.</p> <p>Page 44</p>	<p>The £3.8 billion Better Care Fund (BCF) (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 Spending Round, to ensure a transformation in integrated health and social care. The BCF is a single pooled budget to support health and social care services to work more closely together in local areas. The BCF not only brings together NHS and Local Government resources, but also provides a real opportunity to improve services and value for money, protecting and improving social care services by shifting resources from acute services into community and preventative settings.</p> <p>The governance arrangements for the BCF will therefore have to meet the requirements of all partners to achieve economy, efficiency and effectiveness in their use of resources. Each partner will also need to satisfy itself that the pooled budget complies with the requirements of its appropriate code of governance and annual governance reporting guidance.</p> <p>Each partner must also satisfy itself that all other regulatory requirements are met – for example, that discrete funding streams are only spent appropriately at a local level. Partners therefore need to make arrangements to ensure that that is happening. Additionally, there will be a requirement for an audit certificate on this expenditure and arrangements need to be in place to ensure appropriate records are kept to provide sufficient audit assurance.</p> <p>With this in mind, CCG governing bodies and Local Authority Executives are now considering whether governance arrangements and structures are fit for purpose and will ensure the effective management of the BCF and the pace of development and implementation.</p> <p>KPMG is currently nationally carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry:</p> <ul style="list-style-type: none"> ■ Governance arrangements. ■ Engagement and communication. ■ Hosting arrangements. ■ Signed agreement. ■ Performance management. ■ Financial management. <p>For more information, please contact your Engagement Lead, Tony Crawley.</p>

Area	Comments
<p data-bbox="64 322 269 539">KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years</p> <p data-bbox="45 725 91 882" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 45</p>	<p data-bbox="292 322 1991 415">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 data-bbox="292 434 1991 494">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 data-bbox="292 512 1991 605">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 data-bbox="292 624 1991 684">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 data-bbox="292 702 1991 1082" style="list-style-type: none"> ■ 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; ■ 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; ■ 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; ■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and ■ 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. <p data-bbox="292 1100 1991 1160">To read the report, visit www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need-programme-2015.aspx</p> <p data-bbox="292 1179 1991 1210">For more information, please contact your Engagement Lead, Tony Crawley.</p>

Area	Comments
Better Care Fund Support Programme	<p>The Better Care Fund Support Programme aims to help areas to overcome the barriers to the successful implementation of the Better Care Fund plans across England in 2015/16. KPMG is one of the partners that successfully bid to deliver the programme, on behalf of NHS England, alongside the Social Care Institute for Excellence ('SCIE'), PPL Consulting and the Berkeley Partnership.</p> <p>The focus has been on practical implementation support to deliver better care for the local population. Support has included:</p> <ul style="list-style-type: none"> ■ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them; ■ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development); ■ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and ■ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners. <p>A number of 'How to guides' have been developed on how to:</p> <ul style="list-style-type: none"> ■ lead and manage Better Care implementation: www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf ■ bring budgets together and use them to develop coordinated care provision: www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf ■ work together across health, care and beyond: www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf <p>The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics:</p> <ul style="list-style-type: none"> ■ Joint working; ■ Section 75 Arrangements – Pooled and unpooled budgets; and ■ Data sharing: <p>More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at www.scie.org.uk/about/partnerships-better-care.asp</p> <p>For more information, please contact your Engagement Lead, Tony Crawley.</p>

Area	Comments
Audit Committee Institute: Local Government Seminar Series – Winter 2015	<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 Winter Local Government sessions will be led by specialists from our dedicated Local Government practice and will focus on hot topics in the sector.</p> <p>Invites will be sent to Audit Committee members in Summer 2015.</p> <p>For more information, please contact your Engagement Lead, Tony Crawley.</p>



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Technical update

Area	Level of impact	Comments	KPMG perspective
<p>Transfer of Audit Commission responsibilities from 1 April 2015</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 49</p>	<p style="text-align: center;">● Low</p>	<p>The work that auditors will carry out on 2015/16 accounts will be completed under the new Code of Audit Practice ('the Code') that the NAO is developing. Under the <i>Local Audit and Accountability Act 2014</i> the Audit Commission's responsibility to prepare and publish a Code transferred to the NAO.</p> <p>From 1 April 2015, Public Sector Audit Appointments ('PSAA'), set up by the Local Government Association as an independent company, oversees the Commission's audit contracts until they end in 2017, or 2020 if extended by DCLG. PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for housing benefit subsidy certification and for publishing the Commission's value for money profiles tool will also transfer to PSAA.</p> <p>The Commission's other functions will also transfer to new organisations, with local value for money studies as well as responsibility for the Code of Audit Practice transferring to the NAO. Following its public consultation, the NAO's final draft Code of Audit Practice was laid in Parliament on Monday 12 January 2015. The Code will apply for audits relating to financial year 2015/16 and beyond; 2014/15 audits will continue under the existing Audit Commission's 2010 Code.</p> <p>The National Fraud Initiative continues and has now been transferred to the Cabinet Office.</p> <p>The Commission recently wrote to audited bodies and other stakeholders with more information about the transfer of the Commission's functions and where to find details on specific questions.</p> <p>The PSAA website: www.psa.co.uk/</p> <p>The NAO website: www.nao.org.uk/code-audit-practice/#</p> <p>The Cabinet Office website: www.gov.uk/government/collections/national-fraud-initiative</p>	<p><i>The Committee may wish to enquire of officers whether they have received any such communications from the Audit Commission and the details of any response.</i></p>

Area	Level of impact	Comments	KPMG perspective
<p>The Accounts and Audit Regulations 2015</p> <p>Page 50</p>	<p>● Low</p>	<p>The <i>Accounts and Audit Regulations 2015</i> ('the Regulations') have been laid before Parliament. Authorities should note, however, that the 2011 regulations, which were issued under the Audit Commission Act 1998, continue to apply for the completion of 2014/15 audits.</p> <p>The County Council is a Category 1 authority under the Regulations. As such, the major changes arising from the regulations will be:</p> <ul style="list-style-type: none"> ■ the removal of the 30 June deadline for the section 151 officer to certify the financial statements; and ■ moving the deadline for issuing the audit certificate and publishing the financial statements from 30 September to 31 July, from 2016/17 onwards. <p>The rest of the 2015 regulations come into effect for financial years beginning on or after 1 April 2015 and therefore will first apply for 2015/16 audits.</p> <p>The Regulations can be found on the UK Legislation website at www.legislation.gov.uk/uksi/2015/234/contents/made</p>	<p><i>The Committee may wish to note that these regulations only apply from the 2015/16 audit, and consider the timing of the 2015/16 and 2016/17 audits.</i></p>

Area	Level of Impact	Comments	KPMG perspective
LAAP Bulletin 103: closure of the 2014/15 accounts and related matters	<p style="text-align: center;">● Low</p>	<p>On 27 March CIPFA issued <i>LAAP Bulletin 103: closure of the 2014/15 accounts and related matters</i> which clarifies a number of issues with regard to the preparation of 2014/15 financial statements in response to FAQs in relation to:</p> <ul style="list-style-type: none"> ■ accounting for local authority maintained schools in England and Wales; ■ accounting for local authority maintained schools transferring to academy status; ■ <i>LAAP Bulletin 102: accounting for collaboration – transition issues</i>; and ■ amendments to the 2015/16 Code regarding the frequency of valuations. <p>The Bulletin also highlights a number of other issues affecting the closure of the 2014/15 accounts:</p> <ul style="list-style-type: none"> ■ accounting standards that have been issued but have not yet been adopted, including IFRS 13 Fair Value Measurement; ■ use of example financial statements for preparation of the 2014/15 accounts; and ■ technical alerts, including changes to holiday pay calculations following recent Employment Appeal Tribunal rulings and NDR provisions for refunds granted on appeal against the rateable value of business properties. <p>For future accounting periods, the Bulletin also provides an update on issues affecting 2015/16 and on the measurement of transport infrastructure assets in 2016/17. CIPFA has now issued the guidance notes in support of its Code of Practice on transport infrastructure assets. The final section of the Bulletin includes an update from HM Treasury and the Department for Communities and Local Government covering the Whole of Government Accounts return for 2014/15.</p> <p>The bulletin can be found on CIPFA’s website at www.cipfa.org/policy-and-guidance/laap-bulletins/laap-103-closure-201415-accounts</p>	<p><i>We have discussed the relevant 2014/15 issues raised in the LAAP Bulletin with managers and the agreed audit approach takes these into account.</i></p> <p><i>The Committee may wish to seek assurances from managers that the 2015/16 and 2016/17 issues, particularly the accounting requirements for transport infrastructure assets, are being considered.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>CIPFA Treasury and Capital Management Panel bulletin – April 2015 update</p>	<p>● Low</p>	<p>CIPFA’s Treasury and Capital Management Panel has issued its latest bulletin. These bulletins contain topical treasury management issues which may be of relevance to local authority treasury teams. The latest bulletin covers:</p> <ul style="list-style-type: none"> ■ Public Works Loan Board (PWLB) governance changes; ■ regulatory changes; ■ Lender’s Option, Borrower’s Option loans (LOBOs); ■ IFRS 13 and IFRS 9; ■ Islamic finance; ■ publications update; and ■ UK Municipal Bonds Agency. <p>The bulletin can be found on CIPFA’s website at www.cipfa.org/policy-and-guidance/technical-panels-and-boards/treasury-and-capital-management-panel/newsletters-and-bulletins</p>	<p><i>The Committee may wish to seek assurances that the issues that are relevant for their treasury management teams are being addressed.</i></p>

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Area	Level of impact	Comments	KPMG perspective
NAO Code of Audit Practice 2015/16	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<p>Following its public consultation, the NAO’s final draft Code of Audit Practice has now been approved.</p> <p>The Code will apply for audits relating to financial year 2015/16 and beyond. The former Audit Commission Code continues to apply for 2014/15 audits</p> <p>Further details can be found on the NAO website at http://www.nao.org.uk/code-audit-practice/</p>	<p><i>The Committee may wish to seek assurances that the finance department is aware of the requirements of the Code for the 2015/16 Audit.</i></p>



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Appendix

Appendix 1 – 2014/15 Audit deliverables – Authority and Pension Fund

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2014	Issued April 2014
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2015	Final (Audit Committee March 2015)
Interim			
Interim progress report	Details and resolution of control and process issues. Identify any 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.	June 2015	June 2015
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 2015	
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 2015	
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2015	
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2015	



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