KPMG

External Audit: Progress Report

City of Lincoln Council

November 2017

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November 2017 Progress report

Summary of work performed since September 2017	**Since the last Audit Committee meeting in September 2017 we have:** — Completed the 2016/17 audit. This included: — Issuing an unqualified accounts audit opinion, VFM conclusion and certificate on 29 September 2017; — Issuing the 2016/17 Annual Audit Letter; and — Submitting a fee variation request to Public Sector Audit Appointments Ltd (PSAA) for £2,547 to cover the cost of the additional audit work required in 2016/17. PSAA has not yet approved the request. — Completed the work on the following grants and other returns: — Housing Benefits Grant Claim 2016/17 – the claim was certified on 28 November 2017. The certified claim and Qualification Letter was sent to the Department for Work and Pensions ahead of their 30 November 2017 deadline. — Pooling of Housing Capital Receipts Return 2016/17 – our assurance report on the return was submitted to the Department for Communities and Local Government on 10 November 2017, ahead of the 30 November 2017 deadline. — Continued to liaise with managers at the Council and monitor the Council's financial position and performance and other sector developments. — prepared our update on recent relevant technical matters. The summary is attached at appendix 2 to this report and we particularly want to highlight: — DCLG's consultation on its proposed changes to the prudential framework of capital finance, including likely significant changes to the statutory guidance to local authorities on investments and minimum revenue provision (page 5); and — CIPFA's Counter Fraud and Corruption Tracker, which includes the latest information on trends in fraud and corruption in the local government sector (page 7).
Summary of upcoming work	**Our upcoming work ahead of the February Audit Committee includes:** — Issuing our 2016/17 Annual Grant Claims and Returns Report. — updating our risk assessment of the Council by meeting with officers and completing our 2017/18 planning work. — preparing our External Audit Plan for 2017/18, which we will discuss with management before presenting it to the Audit Committee. We have included at appendix 1 to this report the headlines for the 2017/18 audit planning.
Actions	**We ask the Audit Committee to**: — Note this progress report and technical update.
Contacts	**The key contacts in relation to our audit are:** Andrew Bush *Director* Tel: 07979 483539 Andrew.bush@kpmg.co.uk **Mike Norman** *Manager* Tel: 07500 125105 michael.norman@kpmg.co.uk

Appendix 1: Audit Planning

We have set out below the headlines for the 2017/18 audit planning, which will be our last year as your external auditors. Overall, no significant changes in the scope of the audit, or the profile of risks are anticipated at this stage, although the earlier deadline for the accounts opinion will clearly lead to some necessary changes to the timing of our work. We will update these matters when we issue the draft Audit Plan in January 2018 and will present the Audit Plan at the Audit Committee's next meeting.

Headline	Position
Scope and responsibilities	— There are no changes in regards to our accounts opinion and Value for Money Conclusion responsibilities. — We work to the National Audit Office (NAO's) Code of Audit Practice. There are no immediate changes to our work.
Materiality	— We continue to carefully monitor your accounts risks. We expect to calculate materiality in a similar same way as the prior period, based on your gross expenditure. We will report the calculated materiality to the Audit Committee in our Audit Plan and ISA260 report.
Timeline	— There is an earlier set of deadlines for the publication of the draft and audited financial statements. The Council is required to publish its draft statements by 31 May (30 June in previous year) and audited statements by 31 July (30 September in previous year). — We expect to carry out our interim and final accounts visits in February and May 2018 respectively.
Changes in deliverables	— There have been no change in planned reporting deliverables. We will provide the following reports to you: • Audit Plan (January 2018) • ISA260 Report (July 2018) • Annual Audit Letter (August 2018) • Progress Report and Technical Updates (to the December and March Committee) • Annual Grants and Returns Report 2017/18 (December 2018)
Significant accounts risks and other areas of audit focus	— We will set out these matters in our Audit Plan after we have completed our planning procedures. — We will again be required address the standard audit risks on income recognition and management override of controls.
Significant VFM conclusion risks	— We will set out these matters in our Audit Plan after we have completed our risk assessment. We expect the assessment to continue to include the risks to your medium term financial standing and the ongoing major projects which the Council is managing.
Changes in accounting or reporting standards	— There are no significant changes for in the Code of Local Authority Accounting Practice as compared to the prior year.
Audit fee	— The scale fee for the 2017/18 audit is £47,185 (£47,185 in 2016/17). We will update the Audit Committee in our Audit Plan and throughout the audit if changes to the fee are required.
Other work	— We will certify the 2016/17 Housing Benefits Claim and provide an assurance report on the 2016/17 Pooling of Housing Capital Receipts by 30 November 2018. — We will liaise with your incoming auditors with a view to supporting the transition for the 2018/19 audit.

Appendix 2: Technical Update

DCLG Publications

We set out over the following pages relevant sector and technical updates, since the last Audit Committee in September 2017..

Review of Local Enterprise Partnership Governance and Transparency

In October 2017, DCLG published its 'Review of Local Enterprise Partnership Governance and Transparency'. The aim of the review is to assess whether current systems provide assurance to the Accounting Officer and Ministers that Local Enterprise Partnerships (LEPs) fully implement the requirements of the revised national assurance framework set by DCLG. The framework covers all government funding flowing through LEPs, to ensure they have robust value for money processes in place and sets out what government expects LEPs to cover in their local assurance frameworks. The review covers:

- Culture and accountability
- Structure and decision making
- Conflicts of interest
- Complaints
- Section 151 officer
- Transparency
- Government oversight and enforcement

The report's main findings are summarized below:

- All those who contributed welcomed the review and expressed a shared desire to ensure that LEPs provided the highest standards of stewardship of public money. There was a widespread view that the sector should work collectively and avoid reputational damage from any inconsistencies in governance arrangements and transparency. In addition, some private sector board members were concerned that their association with weak practice in governance and transparency would have potential reputational implications for their companies. LEP board members are generally not remunerated albeit the role and expectations of time commitment have increased as the workload of LEPs has developed. A number of private sector participants in this review referred to the ethos of making a public service contribution. It is important that this ethos is supported and that proposals to achieve good governance are proportionate.

- Some LEPs have a history of establishing robust governance arrangements and to some extent the National Assurance Framework lags behind the practice on the ground in these places. There is a general recognition that additional clarity on the requirements in the National Assurance Framework would assist in raising standards and consistency of stewardship across the sector. This was not seen by those participating as detracting from the flexibility for LEPs to develop local arrangements but rather assisting them with the journey they were on. Overall there appears to be commitment from the LEPs to meeting the requirements of the National Assurance Framework but issues remain on the effectiveness of implementation in some cases. This would be mitigated by additional clarity in the National Assurance Framework which is proportionate, as well as by increasing the sharing of best practice, peer challenge and support across the sector.

- The British Chamber of Commerce, in conjunction with the Confederation of British Industry (CBI), the Engineering Employers' Federation (EEF), the Federation of Small Businesses (FSB) and the Institute of Directors (IoD), has also recommended improvements particularly on the financial information which should be published.

- There is also a need to consider the position of public sector members on LEP Boards in the context of the changing role of local authorities and their increased involvement in commercial enterprises and alternative delivery mechanisms. This is currently somewhat underdeveloped in terms of LEP governance implications and is referred to below in greater detail.

Links to the report and the national assurance framework are included below:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655188/Review_of_local_enterprise_partnership_governance_and_transparency.pdf

https://www.gov.uk/government/publications/local-enterprise-partnership-national-assurance-framework

Appendix 2: Technical Update (cont.)

DCLG Publications

DCLG Consultation on proposed changes to the prudential framework of capital finance

In November 2017 DCLG announced that is was seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision.

The Prudential System is comprised of 4 statutory codes. The Department for Communities and Local Government is responsible for preparing the guidance on Local Authority Investments and the guidance on Minimum Revenue Provision. Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision. As a result the government proposes to update the guidance as part of the more general update of the statutory codes comprising the prudential framework.

The Government is proposing two new sets of Statutory Guidance, and the key changes are summarised below:

Draft Statutory Guidance on Local Authority Investments

- *Transparency and democratic accountability* – proposal to require the publication of a Capital Strategy, including matters previously disclosed in the existing Investment Strategy.
- *Principle of Contribution* – requiring authorities to disclose the contribution that non-core investment activities make to their core functions.
- *Use of indicators to assess total risk exposure* - introducing a new requirement to include quantitative indicators that will allow assessment of exposure.
- *Extention of principle of Security, Liquidity and Yield to non- financial investments* - The Government believes that where local authorities invest in non-financial assets, they should apply the principles of prioritising security and liquidity over yield in the same way that they are required to do for financial assets.
- *Introduction of a concept of proportionality* - the Government proposes requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income.
- *Borrowing in advance of need* - requiring additional disclosure by local authorities who borrow solely to invest in revenue generating investments.
- *Capacity, skills and culture* - the extension of the disclosure requirement on steps taken to secure sufficient expertise to include all key individuals in the decision making process (statutory officers, Councillors and other key individuals).

Draft Statutory Guidance on Minimum Revenue Provision

- *Definition of 'Prudent Provision' in the MRP Guidance* - the Government proposes to change the definition of prudent provision to one that requires local authorities to set MRP in a way that covers the gap between the Capital Financing Requirement and the amount of that requirement that is funded by income, grants and receipts.
- *Meaning of a charge to the revenue account* - the Government has included a clear statement in the updated Regulations that a charge to the account should not be a negative charge.
- *Impact of changing methods of calculating MRP* - the Government has decided to clarify the approach to be adopted when changing the methodologies used to calculate MRP. Under the updated code, local authorities will be allowed to offset overpayments of MRP against charges in future years. However, the revised guidance makes it clear that an overpayment cannot be calculated retrospectively.
- *Introduction of a maximum economic life of assets* - the updated Guidance includes a maximum useful economic life of 50 years for freehold land and 40 years for other assets.

The Government is proposing that both updated codes to come into force for the 2018-19 financial year.

DCLG's consultation is open until 22 December 2017. For more information on this, please see:
https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance

Appendix 2: Technical Update (cont.)

National Audit Office Publications

Update
Implementing the UK's Exit from the European Union: The Department for Exiting the European Union and the centre of government The National Audit Office has published in November a briefing describing how the centre of government is overseeing and taking forward implementation of the UK's exit from the European Union. The briefing focuses in particular on the coordination role of the Department for Exiting the European Union (DExEU). The briefing describes the following: • **The scale of the task.** NAO set out the range of matters departments need to consider to deliver Exit and the work streams they have identified. • **Who does what across government.** NAO set out the responsibilities of DExEU and the range of government bodies involved in Exit. • **How DExEU has set out task**. NAO set out DExEU's approach to supporting implementation of Exit and how it is monitoring departments' progress. For more information on this, please see: https://www.nao.org.uk/report/implementing-the-uks-exit-from-the-european-union/
Guidance to Auditors – Value for Money Conclusion On 10 November 2017, the NAO issued updated Auditor Guidance Notes (AGNs) 03 and 05 which set out their expectations regarding responsibilities in relation to the VFM conclusion. AGN 03 is relevant to local auditors of all bodies covered by the Local Audit and Accountability Act 2014. AGN 05 is relevant to local auditors of the following health bodies for 2017-18 audits: • CCGs • NHS Trusts • NHS Foundation Trusts The AGNs can be accessed from the NAO website. https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

Appendix 2: Technical Update (cont.)

CIPFA Publications

CIPFA 's Counter Fraud and Corruption Tracker

In 2016/17 local authorities detected and prevented 75,000 fraud cases, saving the public purse £336.2m, according to figures released in this November 2017 publication.

The third annual instalment of CIPFA's *Counter Fraud and Corruption Tracker* (CFaCT), which this year focused on the local government sector, also revealed the three greatest fraud risk areas for local government: procurement, adult social care and council tax single person discount.

The report states that:

- An estimated 40% of all fraud committed against local authorities concerns abuse of the procurement cycle, with an estimated value of £6.2m in losses per year.
- Adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated cases, compared with £3.0m in 2016.
- The highest number of investigations related to council tax fraud (76%) with a value of £25.5m.
- The highest value area of fraud is housing with an estimated total of £263.4m.
- Overall, the number of fraud cases dropped in 2017 (compared with 77,000 cases in 2015/16); however, the average value of each fraud increased, from £3,400 to £4,500, which shows that fraud continues to pose a major financial threat to local authorities.

The report also highlighted an increase in collaborations and shared services when it comes to tackling fraud. Increased delivery with reduced resources is the context in which fraud teams are operating.

The reports can be found at:
http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/councils-detect-and-prevent-£336,-d-,2m-worth-of-fraud

Appendix 2: Technical Update (cont.)

CIPFA Publications

CIPFA on the Autumn Budget November 2017

The headlines from the statement by Rob Whiteman, Chief Executive of CIPFA were:

"Today's….Budget….provided additional support to some of the UK's most pressing services.

"House buyers were arguably the biggest winners, with £44bn investment to boost building and the removal of stamp duty on first time buyers (however, the OBR suggests that removing stamp duty could lead to a slight increase in house prices). Change to the HRA cap is a welcome and a previously non-negotiable move that could offer a glimpse of flexibility that should benefit authorities wanting to invest in building, but the cap of £1bn might not have a significant impact at the national level. The additional council tax charge on empty properties is a simple means to try to influence a better use of limited resources, but I'd question whether this will benefit all parts of the country equally. It is welcome news that the chancellor has responded to the chorus of demands he has faced to give the NHS an immediate cash injection. Although the £2.8bn to be allocated to frontline services does fall short of the £4bn NHS leaders called for, and is therefore unlikely to make the financial position of the health service significantly less precarious.

"There were several other welcome additions to this year's budget. Reforms to welfare will provide a much needed degree of security for those who are the most vulnerable during this period of transition. Breathing life back into the devolution agenda with investments for metro mayors and the Northern Powerhouse, alongside investment in teaching, skills and digital technology will hopefully go a long way to reinvigorating the country's productivity.

"However, our chief concerns lay in what was left out of Philip Hammond's speech; specifically support for adult and children's social care. CIPFA's survey of local government CFOs shows these to be the foremost financial pressures and service concerns on councils right now.

"The £3.5bn additional capital promised to STPs over the current Parliament may go some way to underwriting the longer term transformational actions needed to put health on a more sustainable footing. But looking at the whole health and care system, the pressures on children's and adults' social care have been swept under the carpet and will continue to intensify, with knock-on effects on the NHS. Indeed, we can also expect that the 4% increase in the National Living Wage, while welcome indeed for those workers, feed through to considerable extra pressure on the sector, as councils will have to pay significantly more for care workers.

"Finally, this was the government's Brexit Budget, preparing the country for a future outside the EU. With no contingency plan in place, a hard Brexit is set to be a logistical nightmare. And as the chance of a 'no deal' scenario is becoming increasingly likely, it is no surprise that the government has allocated an extra £3bn to support the UK's withdrawal from the EU."

The statement can be found at:

http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-on-the-autumn-budget-2017

Appendix 2: Technical Update (cont.)

CIPFA Publications

CIPFA and Institute for Government – Performance Tracker

The government is spending over £10bn in five years just to keep troubled services – such as hospitals and prisons – going, according to this new report. Yet this extra money is not sorting out any of the underlying problems these services face.

The latest Performance Tracker, published in October 2017 by the Institute for Government and CIPFA looks at 100 data sets across nine key public services and concludes that government is being forced into poor and reactionary spending decisions, instead of getting ahead of problems before they become crises. The report states that government is spending over £10bn in five years just to keep troubled services – such as hospitals and prisons – going. Yet this extra money is not sorting out any of the underlying problems these services face.

Key findings from the report include the following:

- **hospitals** and **prisons** are spending more, with no sign of improvement in key pressure points
- **schools** and **adult social care** have had emergency cash injections, but there is no clear plan for what happens when this extra money runs out
- **GP** numbers are not rising despite the government's plans to improve the service
- **UK Visas and Immigration** managed the initial post-referendum surge in demand, but a much greater task lies ahead
- government does not have enough data to manage the risks around **vital neighbourhood services,** like bin collection and road maintenance

The report concludes that in services such as prisons and hospitals, the chancellor has no choice but to spend more. When it comes to schools and adult social care, the government as a whole must make tough and increasingly urgent policy decisions.

Finally, the report calls for the creation of a new watchdog (similar to the Office of Budget Responsibility) to scrutinise the assumptions underpinning government decisions about public spending.

The Tracker can be found at:

http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cycle-of-crisis,-crash-and-repeat-in-public-services-costs-government-£10bn

Appendix 2: Technical Update (cont.)

CIPFA Publications

CIPFA – Survey of Sustainability and Transformation Plans

A survey of local authority and NHS organisations involved in Sustainability and Transformation Plans (STPs) suggests there is a worryingly long way to go to achieving successful partnership working.

In the survey, which was conducted by CIPFA and iMPOWER and published in September 2017, 55 of the 56 respondents stated that they do not believe full joint working will be achieved in the next five years. Furthermore, the survey shows that a quarter (25%) believe relationships are currently 'limited', while 54% believe them to be reasonable and only 21% very strong.

The survey also throws up some serious question marks on the financial capacity of STPs to invest in important prevention measures.

A significant majority (95%) of those surveyed agreed that investing in prevention is essential or important. However, only one in six (15%) expect to be able to use any of the additional £2bn announced in Chancellor Philip Hammond's spring 2017 Budget towards prevention activities. Indeed, research from CIPFA and iMPOWER indicates that almost all of the available budgets this year will be spent meeting operational challenges or sustaining the market for local providers.

Commenting on the results from the survey, CIPFA's Chief Executive, Rob Whiteman, said:

"While it is now clear what the overall ambitions are for STPs, the survey released today highlights there may be major barriers to achieving these.
"The survey shows that there are some significant concerns with regard to joint working, which is vital to the success of STPs. Therefore, serious care and attention must now be paid to building relationships and trust between partners.

"As well as ensuring working relationships are in place for STPs to achieve their desired outcomes, there also needs to be suitable levels of funding. Otherwise, there is the danger that the targets that have been set will turn out to be financially unachievable."

The survey can be found at:

http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/stps-under-pressure-as-local-government-and-health-organisations-struggle-to-integrate,-new-cipfa-and-impower-survey-suggests

Appendix 2: Technical Update (cont.)

CIPFA Publications

CIPFA' Brexit Advisory Commission for Public Services

In August 2016 a new commission was launched by CIPFA to explore risks and opportunities of Brexit for public services

The Brexit Advisory Commission for Public Services, which will examine how best the risks can be mitigated and the opportunities seized to make the sector more flexible, effective and sustainable following Brexit.

The launch of the Commission was marked by the release of its mission statement, which outlines its research themes and principles.

In the document, the Commission recognises that exiting the EU is likely to generate significant challenges for the UK's public services. The advisory group has also identified that there is additional scope to reshape EU legislation and policy to enhance services for the benefit of communities.

To ensure that negotiators behind the deal understand the challenges and opportunities which Brexit presents, the Commission will provide evidence-based analysis and impartial advice.

The Commission will release analysis later this year that will seek to explain the relationship between UK public services and EU funding. It will also bring forward recommendations on how future funding mechanisms could best work.

Chaired by former MP Julia Goldsworthy, its members include:

Marina Wheeler QC
Vicky Pryce, Economist, CEBR
Paul Johnson, Director, IFS
Niall Dickson, CEO, NHS Confederation
Andrew Carter, Deputy Director, Centre for Cities
Anna Randle, Head of Public Services, Collaborate CIC
Cllr Claire Kober, Chair, London Councils
Professor David Bell, Professor of Economics, University of Stirling
Gill Payne, Director of Policy and External Affairs, The National Housing Federation
Julian McCrae, Deputy Director, IFG
Kate Kennally, CEO, Cornwall Council
Warwick Lightfoot, Director of Research, Policy Exchange
Melanie Maxwell-Scott, Director of Policy, BSA

The Commission's Mission Statement can be found at the following link.

http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/new-commission-launched-by-cipfa-to-explore-risks-and-opportunities-of-brexit-for-public-services

Appendix 2: Technical Update (cont.)

PSAA Publications

VFM Profiles

The VFM Profiles currently maintained by PSAA will now be provided via a new tool created by the LGA, called LG Inform VfM. The data and analysis previously available in the profiles have been transferred to the LG Inform suite of tools, and the LG Inform team will now be maintaining and updating the VFM Profiles. The new site is available from the following link: http://vfm.lginform.local.gov.uk/. The existing PSAA profiles site will continue to be available until December 2017, but the data will not be updated.

Appendix 2: Technical Update (cont.)

KPMG Webinars

General Data Protection Regulations	The biggest change to rules governing data protection for more than 20 years comes into effect in May 2018. Substantial fines can be levied against organisations that do not comply. KPMG has issued general guidance for clients on the new requirements, including a short publication summarising the 5 key steps which organisations should be taking to prepare. A link to the briefing is included here: https://home.kpmg.com/uk/en/home/insights/2017/06/get-data-protection-ready0.html Earlier in the year KPMG held a cross-sector webinar for clients on the implications of the changes due to be introduced next year, which included useful, interesting and important points to note. The link to the recording can be provided separately to the Audit Committee members if requested (please note the file size is very large).
Autumn Budget 2017	On 23 November 2017 KPMG is hosting a webinar for our clients on what the measures announced in the Budget mean for them and their businesses. We a link to the recording of this webinar is included below (please note, registration may be required). http://event.on24.com/eventRegistration/EventLobbyServlet?target=lobby.jsp&eventid=1530638&sessionid=1&key=40E5C1C40EA415D7A4D641E2CCD65D75&eventuserid=187052655

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