



Technical update

Incorporating the External Audit Progress Report

Ryedale District 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

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	<i>We have received a set of draft signed statements for the 30 June 2017 deadline. We have started our work on site and the work is ongoing. We will report our findings in the ISA260 report to the next audit committee</i>
Value for Money	<i>We have not identified any significant risks on VFM and we will be updating our risk assessment during the on site visit and will report our findings in the ISA260 report to the next audit committee</i>
Certification of claims and returns	<i>There has been some initial discussions and planning for the Housing Benefits claim certification and work will be starting during August / September</i>
Other work	<i>No other work is ongoing</i>



KPMG Resources

Ready for General Data Protection Regulations (GDPR)?

The biggest change to rules governing data protection for more than 20 years comes into effect in May 2018, carrying fines of up to 4% of revenue or €20m for organisations that do not comply, whichever is higher. The European Privacy regulators have made it very clear they intend to use their new powers.

Managing data requires a careful strategy to ensure that it's reliable and that customers understand what you are doing with their personal information and where required that you have gained their consent. This will ensure the insights it delivers are actionable, and reduces the risk that organisations won't be perceived as intrusive as customers see more tailored services.

Based on KPMG's extensive experience in working with organisations across sectors and geographies on privacy matters, we recommend the following five step approach. This could be used specifically for the purposes of the GDPR or as a broader privacy strategy approach.

- 1) **Define your privacy strategy** – Defining your privacy strategy is the first step. Without it, you can't have a consistent and coherent approach. The strategy must be defined and articulated, and then presented to senior leadership for their endorsement. You need to get it on the Council's agenda fast. Our recent experience has shown that most organisations will need to put investment into a privacy improvement programme.
- 2) **Where are you now?** – In order to establish the size of the task ahead and what specific areas need addressing, you need to understand your organisation's current maturity. This is not a tick box exercise but a pragmatic, focused process to really understand the GDPR privacy risk exposures that exist across your organisation.
- 3) **Take a pragmatic approach** – You need to build a realistic plan which will help you manage your risk to an appropriate level, in line with your overall business strategy. This does not necessarily mean taking a leading position in every single respect – but a clear view of what success looks like for you.
- 4) **Coordinate and deliver** – Focusing on areas of greatest risk, you need to ensure that controls are embedded as part of day to day business operations. This will require coordination across the organisation. Make sure you have the right blend of input from legal, IT, HR and other functions and enough resources. Don't underestimate the level of effort – personal information is everywhere in your organisation.
- 5) **Embed into business as usual** – Complying with the GDPR is about defining, implementing and then sustaining compliant processes. Post 2018 you will be required to demonstrate, on an ongoing basis, how you collect, use, retain, disclose and destroy personal information in line with the GDPR requirements. This impacts everything you do relating to personal information and is therefore a significant transformational activity for your organisation going forwards.

More details, including in relation to the five step approach set out above, can be found at:

www.kpmg.com/uk/privacyservices



Technical developments

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

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 bodies 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.psaa.co.uk/appointing-auditors/terms-of-appointment/

Local government finance settlement 2017-18

Level of impact: ● (For Information)	KPMG Perspective
<p>The Department for Communities and Local Government (DCLG) has published the final local government finance settlement for 2017-18. The settlement reflects comments received by DCLG in response to its consultation, with key features including:</p> <ul style="list-style-type: none">· confirmation of spending allocations for those authorities which have taken up the government's four-year funding deal first set out in 2015;· details of council tax referendum thresholds, including the additional social care precept, and a 2% principle for all shire district councils, and for police and crime commissioners in the lowest quartile; and· the legislative framework for business rates reform underpinning the move towards 100% business rates retention. <p>For further information please see https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2017-to-2018</p>	<p>Committee members may ask for an update as to how this will impact on the medium term financial plans</p>

NAO Report: Local support for people with a learning disability

Level of impact: ● (For Information)

On 3 March 2017, the NAO published a report on Local Support for People with a Learning Disability. The report examines how NHS in England and local authorities seek to improve the lives of the 129,000 people aged 18 to 64 who use local authority learning disability support services.

The report highlights the good progress made by the Department of Health and NHS England in setting up a programme to close hospital beds for people with a learning disability, but concludes that the programme is not yet on track to achieve value for money. The programme partners have yet to resolve a number of complex challenges if they are to achieve the ambition of a substantial shift away from reliance on inpatient care.

Between £135 million and £195 million annually will need to be made available to pay for health and social care support in the community for people with learning disabilities discharged from mental health hospitals. Unless more funding is made available for local services, this will be an unfunded pressure on the budgets of local authorities and clinical commissioning groups (CCGs). NHS England has recognised that it will take time for funding to move from hospitals to community support. To help in the short-term, it has provided £30 million revenue funding over three years, to be match-funded by partnerships, and £100 million of capital funding.

The report is available at <https://www.nao.org.uk/report/local-support-for-people-with-a-learning-disability/>

Local authority accounts: A guide to your rights

Level of impact: ● (For Information)

The NAO publishes a guide aimed at helping local people understand their rights to ask questions, inspect and object to local authority accounts. The updated publication, Local authority accounts: A guide to your rights, is available on the NAO website (at the link below).

The main changes to the guide are as follows:

- We have changed the title from Council Accounts: A guide to your rights to Local authority accounts: A guide to your rights, to reflect the fact that public rights apply to a wider selection of authorities than 'councils'.
- The guide contains a new Annex, which addresses issues specific to smaller authorities, such as exemption from limited assurance review, which comes into force from 2017-18 onwards.
- The guide clarifies that, while helpful to do so, it is not necessary for electors to identify an item of account in order for the objection to be eligible, particularly where they are raising issues in respect of governance, and/or are asking the auditor to issue a report in the public interest.

Audit committee members are encouraged to read the guide, and to direct members of the public to in correspondence where this may be helpful.

The guide can be found at <https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

Publication of 2017-18 work programme and scale of fees

Level of impact: ● (For Information)

Publication of 2017-18 work programme and scales of fees

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audit of the 2017-18 accounts of principal local government and police bodies.

There are no changes to the overall work programme for 2017-18. Scale fees will therefore also remain at the same level as the scale fees applicable for 2016-17. This retains the significant fee reductions of 55 per cent secured since 2012-13, and continues to protect audited bodies from cost of living increases with an overall real terms saving equivalent to 61 per cent.

The audit of the 2017-18 accounts is the final year for the current audit contracts, which were extended for one year under transitional arrangements made by the Department for Communities and Local Government. For audits of the accounts from 2018-19, the provisions of the Local Audit and Accountability Act 2014 in relation to local appointment of auditors will apply. The Secretary of State for Communities and Local Government has specified PSAA as the appointing person for principal local government and police bodies, and, in accordance with the Act, PSAA will therefore appoint auditors and set scale audit fees for bodies that have opted into its national scheme.

During the course of 2017-18 PSAA plans to make a distribution of surplus funds to principal local government and police bodies. The distribution is made possible by the transfer of an element of the Audit Commission's retained earnings prior to its closure in March 2015 and by PSAA making further efficiencies since its establishment.

The work that auditors will carry out on the 2017-18 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The 2017-18 work programme documents and scale fees for individual audited bodies are now available on the PSAA website at:

<http://www.psaa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

Public Sector Internal Audit Standards (PSIAS)

Level of impact: ● (For Action)	KPMG Perspective
<p>The revised Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2017 and are included on the IASAB website (a CIPFA microsite – link below).</p> <p>These were agreed by the Relevant Internal Audit Standard Setters (RIASS) who are HM Treasury in respect of central government, the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations, the Department of Health in respect of the health sector in England (excluding Foundation Trusts), and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.</p> <p>The standards are applicable to the following public sector bodies in England:</p> <ul style="list-style-type: none"> · local authorities and other local government bodies, including police and fire bodies; · government departments and their executive agencies and non-departmental public bodies; and · Clinical Commissioning Groups and NHS trusts. <p>Note that Section 2 of the PSIAS sets out the requirements for Wales, Scotland and Northern Ireland.</p> <p>The standards are based on the mandatory elements of the International Professional Practices Framework (IPPF) as follows:</p> <ul style="list-style-type: none"> · definition of internal auditing; · core principles for the professional practice of internal auditing; · code of ethics; · international standards for the professional practice of internal auditing (which comprise statements, interpretations and a glossary); and · plus the mission of internal auditing. <p>In addition, the PSIAS include a small number of the UK public sector requirements, which indicate how internal auditors must implement the IPPF in the UK public sector including:</p> <p>4 of 7</p> <ul style="list-style-type: none"> · conforming to the Code of Ethics. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation; · having regard to the Committee on Standards of Public Life's Seven Principles of Public Life; and · the requirement for the chief audit executive to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme. <p>The 2017 PSIAS standards can be found at http://www.iasab.org/standards</p>	<p>Committee members may request assurance that the Internal Audit standards will be achieved.</p>

Local Audit (public access to Documents) Act 2017

Level of impact: ● (For Information)

The Local Audit (Public Access to Documents) Act 2017 (the Act) received royal assent on 27 April 2017. The Act extends rights of inspection under section 26 of the Local Audit and Accountability Act 2017 to include journalists and citizen journalists.

The Act defines a journalist as ‘any person who produces for publication journalistic material (whether paid to do so or otherwise).’

Committee members will wish to note that while the Act extends rights of inspection, there are no changes in respect of auditors’ additional powers and duties; the rights under the Local Audit and Accountability Act 2014 to ask the auditor questions about the accounts, and to make an objection at audit, continue to be restricted to local government electors only.

Period for the Exercise of Public Rights 2017

Level of impact: ● (Low)	KPMG Perspective
<p>The Accounts and Audit Regulations 2015 prescribe a thirty working day period (the inspection period) for local electors and other interested persons to exercise their public rights to inspect the accounts, and for electors to ask the auditor questions about the accounts and make objections.</p> <p>The Regulations stipulate that the inspection period must include the first ten working days of July. Inspection periods could therefore commence as early as Monday 5 June, and end as late as Friday 11 August 2017.</p> <p>Audit committee members may wish to ensure that they are aware of the dates that their authority has set for the 2017 inspection period, so that they can ensure they respond promptly to correspondence with electors during this period, as there is no discretion to extend the inspection period beyond thirty working days.</p> <p>Regulations 14 and 15 set out the requirements for commencing the period for the exercise of public rights.</p>	<p>The committee need to be satisfied that the correct dates for the inspection period have been set up correctly.</p>



Audit Deliverables

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	done
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2017	done
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

Appendix 1

2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
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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