



OVERVIEW AND SCRUTINY COMMITTEE

Thursday 21 April 2016 at 6.30 pm

Council Chamber, Ryedale House, Malton

Agenda

1 Emergency Evacuation Procedure.

The Chairman to inform Members of the Public of the emergency evacuation procedure.

2 Apologies for absence

3 Minutes of the meeting held on the 28 January 2016

(Pages 3 - 6)

4 Urgent Business

To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.

5 Declarations of Interest

Members to indicate whether they will be declaring any interests under the Code of Conduct.

Members making a declaration of interest at a meeting of a Committee or Council are required to disclose the existence and nature of that interest. This requirement is not discharged by merely declaring a personal interest without further explanation.

6 External Audit Report

(Pages 7 - 20)

7 Internal Audit - Third Progress Report 2015/16

(Pages 21 - 30)

8 Internal Audit Plan 2016/17

(Pages 31 - 40)

- 9 **External Audit Progress Report and Technical Update** (Pages 41 - 64)
- 10 **Any other business that the Chairman decides is urgent.**

Overview and Scrutiny Committee

Held at Council Chamber, Ryedale House, Malton
on Thursday 28 January 2016

Present

Councillors Acomb (Vice-Chairman), Duncan, Jainu-Deen, Jowitt, Keal, Potter and Wainwright (Chairman)

In Attendance

Audrey Adnitt, Stuart Cutts (Veritau), Peter Johnson, Clare Slater, Janet Waggott and Rob Walker (KPMG).

Minutes

65 Treasury Management Training - Capita Asset Services

A training session was provided by Mr David Chefneux of Capita Asset Services on Treasury Management. This training session was open to all Members and Councillors Cowling, Raper and Shields attended the training session, in addition to the members of the Overview and Scrutiny Committee.

66 Apologies for absence

Apologies were received from Councillors Cussons, Sanderson and Gardiner.

67 Minutes of the meeting held on the 5 November 2015

Decision

That the minutes of the Overview and Scrutiny Committee held on the 5 November 2015, be approved and signed by the Chairman as a correct record, subject to the following amendment to the list of attendees:
Councillor Acomb to be recorded as the Vice Chairman.

68 Urgent Business

There were no items of urgent business.

69 Declarations of Interest

There were no declarations of interest.

70 Treasury Management Strategy Statement and Annual Investment Strategy 2016/17

Considered the report of the Finance Manager (s151).

Recommendation

That Council is recommended to approve:

- i. Members receive the report;
- ii. The Treasury Management and Investment Strategies be noted and approved by the Council;
- iii. The Minimum Revenue Provision Policy Statement be approved by the Council
- iiii. That the Prudential Indicators in the report be approved by the Council.

71 Certificate of Claims and Returns 2014/15 Annual Report January 2015

Considered the Certificate of Claims and Returns 2014/15 Annual Report from Deloitte.

Decision

That the report be received.

72 External Audit Letter on Wentworth Street

Considered the External Audit Letter on Wentworth Street Car Park from KPMG.

Decision

That the contents of the letter be noted.

73 Risk Strategy Annual Review

Considered the report of the Head of Corporate Services

Decision

That the content of the annual review of the Risk Management Strategy be noted.

74 Corporate Risk Register

Considered the Corporate Risk Register 2014/18

Decision

That the report be noted.

75 Internal Audit Report

Considered the report of the Finance Manager (s151).

Recommendation

That the results of the audit and fraud work undertaken so far during 2015/16 be noted.

76 Annual Governance Statement Action Plan

Considered the report of the Finance Manager (s151).

Decision

That the progress made to address identified actions in the 2014-15 AGS action plan be noted.

77 Any other business that the Chairman decides is urgent.

There being no items of urgent business, the meeting closed at 8.35pm.

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External Audit Plan 2015/2016

Page 7

Ryedale District Council

March 2016

Agenda Item 6

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at £0.4m.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £20,000.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management Override of controls; and
- Revenue Recognition

These are generic risks we are required to consider on all audited bodies in the local government Sector.

See pages 3 to 4 for more details.

Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our initial risk assessment regarding your arrangements to secure value for money identified one significant risk relating to the judicial review over the Council's planning decision relating to Wentworth Street Car Park. We will also carry out a detailed risk assessment as part of our interim work which may identify further risks.

See pages 5 to 8 for more details.

Logistics



Our team is:

- Rashpal Khangura ,Director
- Rob Walker, Manager
- Katie Goodall, Assistant Manager

More details are on **page 11**.

Our work will be completed in three phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 10**.

Our fee for the audit is £41,826 see **page 9**.

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 sent in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

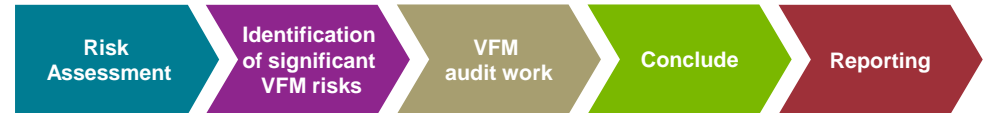
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 5 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our VFM risk assessment.



Financial Statements Audit Planning

Our planning work takes place during December 2015 and February 2016. This involves the following key aspects:

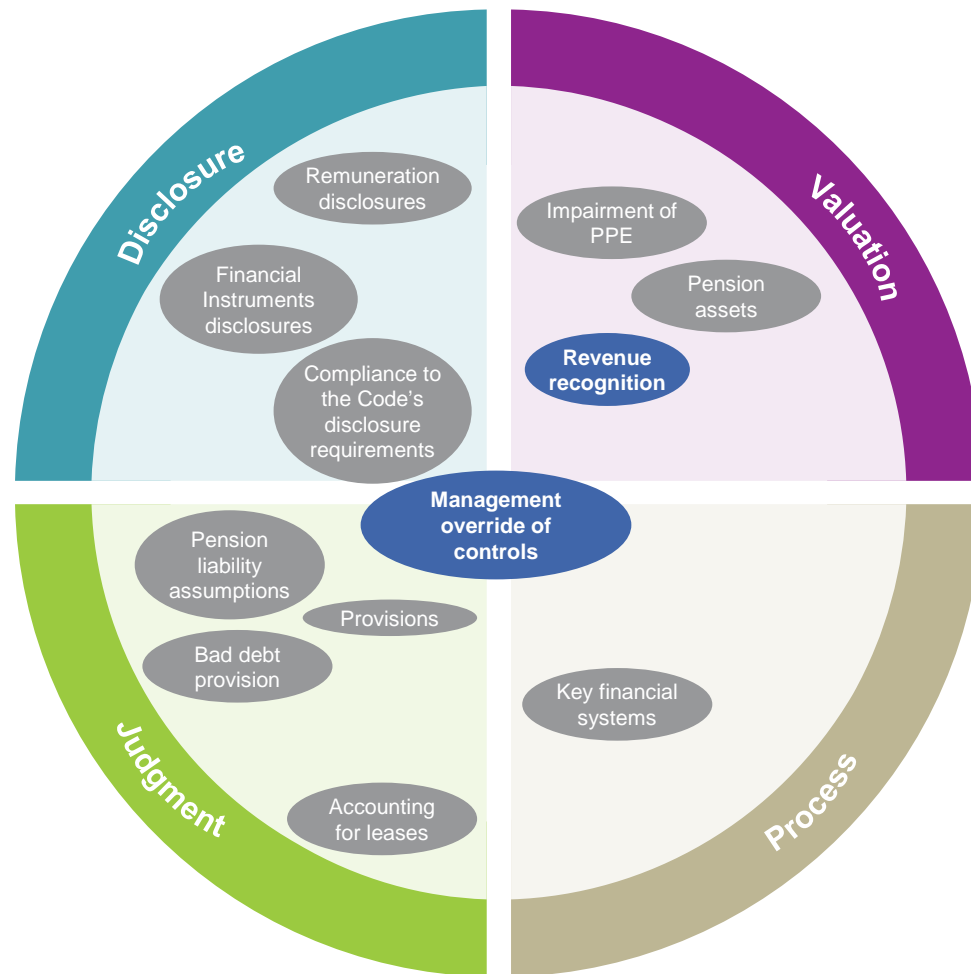
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

We have not identified any further significant risks.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

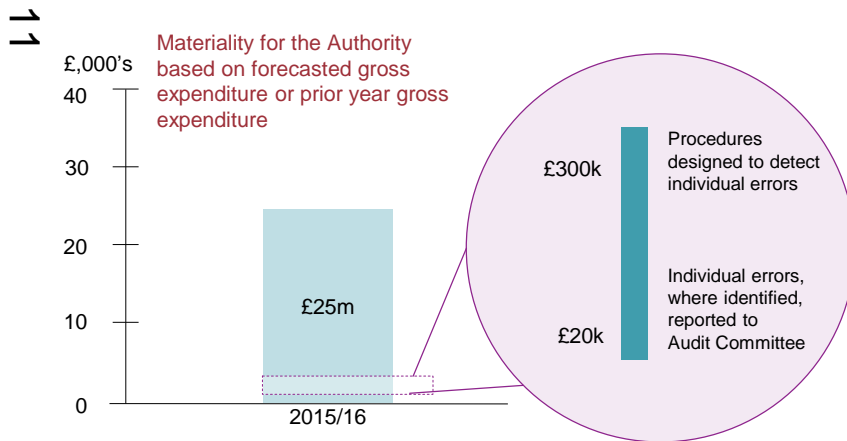
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £0.4 million which equates to 1.6 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.



Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £20,000.

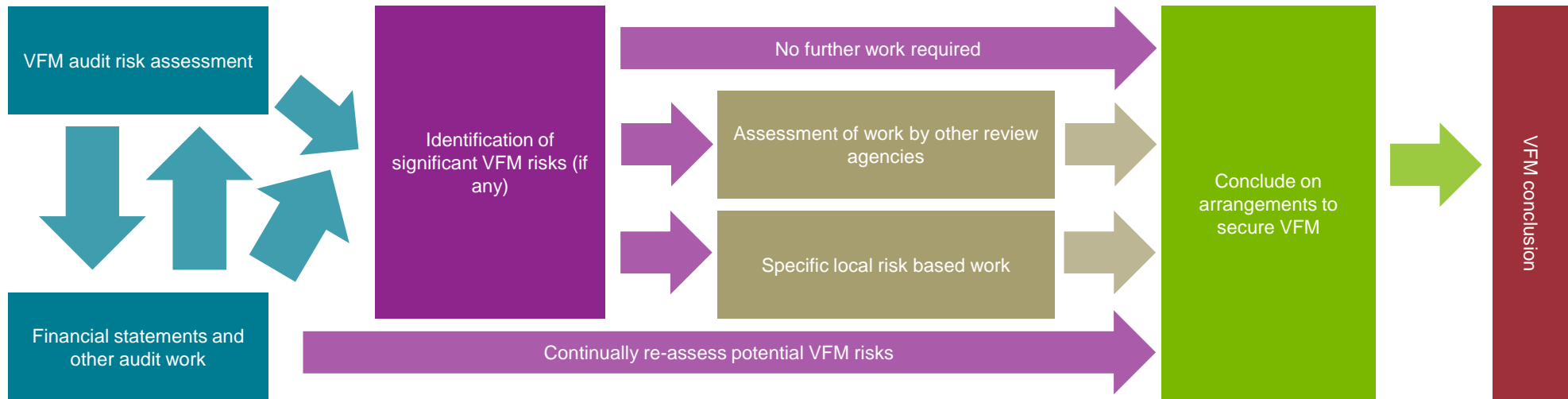
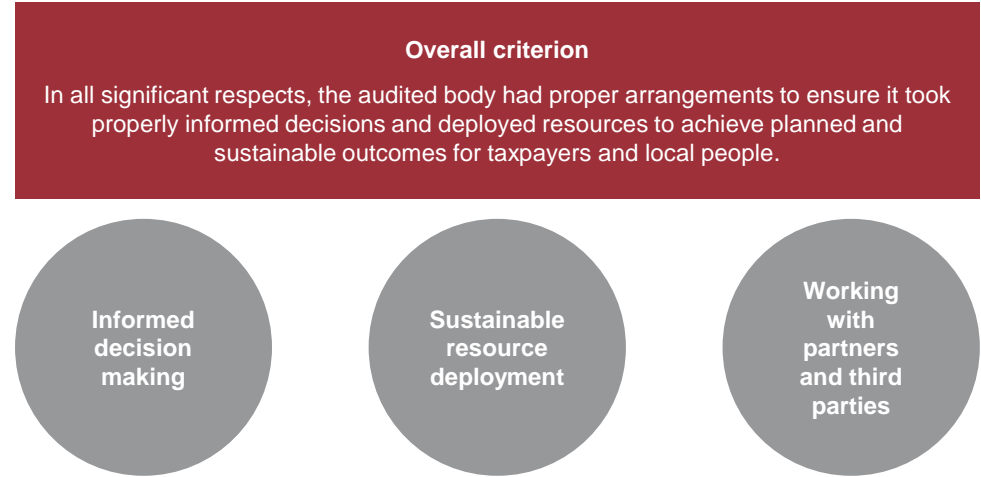
If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.





VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Page 13



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>



Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Significant Risk 1

- **Risk**

On 9th July 2015 in the High Court, Judge, Mr Justice Dove delivered a judgement quashing the permission granted by The Ryedale District Planning Committee relating to Wentworth Street Car park. In his Judgement Mr Justice Dove view was that officers misled the Planning Committee meeting on 24 April 2014 when the decision was taken. We will review the decision-making arrangements at the Council to determine whether expert advice received by officers was fairly reflected in the key decision making reports considered by members relating to Wentworth Street Car Park.
- **Approach**

Review of key reports, legal advice and Justice Dove's judgement dated 9th July 2015, Report by Anthony Winship the Council Solicitor to the Planning Committee dated 18 August 2015, 24th April 2014 report to the Planning Committee and related papers, Planning inspectors report dated 29 October 2012, Justice Gilbert's judgement dated 17 December 2014, RDC constitution, Advice received by the Council from David Manley QC dated 23 October 2014 and 2 April 2015.

Review of communication of e-mails confirming the advice the Council followed and this was supported with detailed discussions with key officers.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Rashpal Khangura (Director) and managed locally by Rob Walker (Audit Manager). Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Overview and Scrutiny Committee. Our communication outputs are included in Appendix 1.

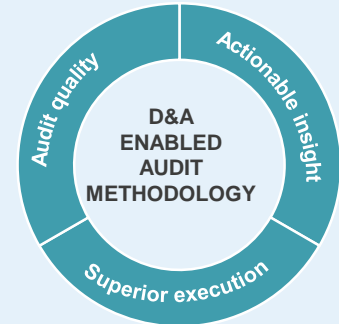
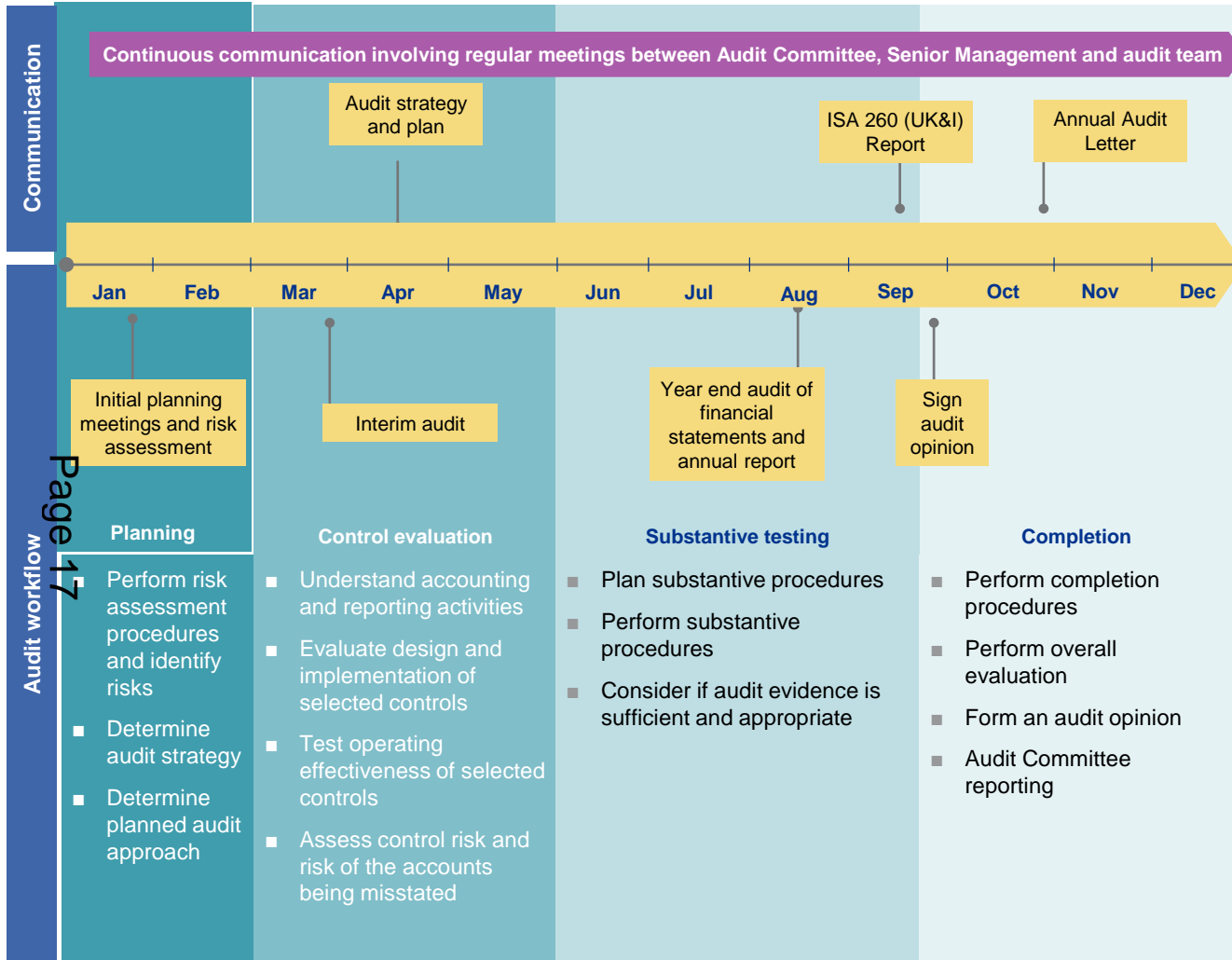
Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 sent in April 2016 set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We are anticipating an adjustment to the scale fee to take account of the work on Wentworth Street Car Park, reported to the January 2016 Audit, Overview and Scrutiny.

The planned audit fee for 2015/16 is £41,826 compared to £55,768 in 2014/15. Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department.



Name	Rashpal Khangura
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit, Overview and Scrutiny Committee and Chief Executive.'

Rashpal Khangura
 Director
 Tel. 07876 392195
 Rashpal.Khangura@kpmg.co.uk



Name	Rob Walker
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with partner to ensure we add value. I will liaise with the Finance Manager (S151) and other Corporate Directors.'

Rob Walker
 Manager
 Tel 07912 763085
 Rob.Walker@kpmg.co.uk



Name	Katie Goodall
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Katie Goodall
 Assistant Manager
 Mobile: 07979 450922
 Email: Kathryn.Goodall@KPMG.co.uk

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit, Overview and Scrutiny Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of February 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	21 APRIL 2016
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	INTERNAL AUDIT – THIRD PROGRESS REPORT 2015/16
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report summarises the outcome of internal audit work undertaken between 1 April 2015 and 31 March 2016, inclusive.

2.0 RECOMMENDATION(S)

- 2.1 It is recommended that the Committee note the results of audit work undertaken as part of 2015/16 audit plan.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To enable the Committee to fulfil its responsibility for considering the outcome of internal audit work.

4.0 SIGNIFICANT RISKS

- 4.1 The Council will fail to comply with proper practice requirements for internal audit if the results of audit work are not considered by an appropriate Committee.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 This report supports the Council's Corporate Strategic Objective of providing strong Community Leadership, by demonstrating a commitment to local democracy and accountability.

6.0 REPORT DETAILS

- 6.1 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS) and CIPFA guidance on the application of those standards in Local Government. In accordance with the standards, the Head of Internal Audit is required to report on the results of audit work undertaken.

- 6.2 Veritau is progressing in the delivery of the agreed internal audit plan. There are no significant delays anticipated with the work. Within the report there is a summary of progress made against the plan and a summary of the audit opinions for the individual audits completed thus far.
- 6.3 In the period between 1 April 2015 and 31 March 2016 eight out of twenty internal audit reviews have been completed. Three draft reports have also been issued. Work is ongoing on all other audits. It is expected all audits will have had draft reports issued by the end of April 2016.
- 6.4 It is important that agreed actions are formally followed-up to ensure that they have been implemented by managers. The internal audit team carries out follow-up work throughout the year and escalates any issues that have not been addressed, with senior managers. Where necessary, the issues will also be brought to the attention of this committee. We have no matters to report from our work following up findings in 2015/16.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
None
 - b) Legal
None
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson
Finance Manager (s151)

Author: Stuart Cutts Audit Manager.
Veritau Limited
Telephone No: 01653 600666
E-Mail Address: stuart.cutts@veritau.co.uk

Background Papers:
2015/16 Internal Audit Plan

RYEDALE
DISTRICT
COUNCIL



Ryedale District Council
Internal Audit Progress Report 2015/16
Period to 31 March 2016

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview and Scrutiny Committee
Chief Executive
Finance Manager (S151 Officer)

Date: 31 March 2016


Assurance Services for
the Public Sector

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the 2015/16 Internal Audit Plan at their meeting on 23 April 2015. The total number of planned audit days for 2015/16 was 225. This report summarises the progress made in delivering the agreed plan.
- 3 This is the third Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2015/16. This report updates the Committee on the work completed since 28 January 2016.

Internal Audit work completed in 2015/16

- 4 In the period between 1 April 2015 and 31 March 2016 we have completed 8 out of 20 planned internal audit reviews. We have issued a further 3 draft reports and work is ongoing for all other audits. We are on target to deliver the agreed Audit Plan by the end of April 2016.
- 5 Further information on the progress made in delivering the 2015/16 audit plan is included in Appendix A.
- 6 Further information on the findings from audits completed since the report to the last Overview and Scrutiny Committee on 28 January 2016 is included in Appendix B.

Audit Opinions

- 7 For the majority of our reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the opinion and priority ranking are included in Appendix C.

Wider Internal Audit work

- 8 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Overview and Scrutiny Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice, guidance and training to Members as required.
 - **Ongoing support to management and officers;** we meet regularly with management to identify emerging issues and provide advice on a range of specific business and internal control issues. These relationships help to provide 'real time' feedback on areas of importance to the Council such as the transformation programme of work the Council is undertaking.

- **Follow up of previous audit recommendations;** it is important that agreed actions are regularly and formally 'followed up'. This helps to provide assurance to management and Members that control weaknesses from previously agreed work have been properly addressed. In 2015/16, we have followed up agreed actions either as part of our ongoing audit work, or by separate review. We have no matters to report.

Table of 2015/16 audit assignments to 31 March 2016

Audit	Status	Assurance Level	Audit Committee
Strategic Risk Register			
Business Continuity	In progress		
Disaster Recovery	In progress		
Fraud and Corruption	Draft Report		
Performance Management arrangements and Data Quality	In progress		
Fundamental/Material Systems			
Housing Benefits	Completed	Substantial Assurance	April 2016
Payroll	In Progress		
Council Tax / NNDR	Completed	High Assurance	January 2016
Sundry Debt Recovery	Completed	Substantial Assurance	April 2016
Creditors	In Progress		
General Ledger	In Progress		
Budgetary Management	In Progress		
Regularity Audits			
Risk Management	In Progress		
Contract Management	Draft Report		
Human Resources – Sickness Absence and Disciplinary Procedures	Draft Report		
Technical/Project Audits			
Projects - Payroll budget monitoring development	Completed	No opinion given	November 2015
Projects - Cash Payments Ryedale House	Completed	No opinion given	November 2015
Server Rooms security	Completed	Limited Assurance	January 2016
Data Protection and security	Completed	Limited Assurance	November 2015
Payment Card Industry Data Security Standard	In Progress		
Follow-Ups	Completed		

Summary of Key Issues from audits completed to 31 March 2016; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Housing Benefits	Substantial Assurance	The audit reviewed the controls and processes for calculating and paying housing benefits. The audit also examined the measures to prevent possible overpayments including risk based verification and evidence checking.	March 2016	<p>Strengths Over the last two years the Housing Benefit Service has made significant progress in improving processing times for new claims and changes in circumstances.</p> <p>Checks of new claims and changes in circumstances have been reintroduced following our last audit. The introduction of the Fraud and Error Reduction Incentive Scheme (which involves the review of high risk claims) is now operational and functioning well. The service continues to pay rent allowance by BACS only, which makes payments quicker and more efficient to undertake.</p> <p>Weaknesses There is the potential to develop electronic methods of communication in order to keep claimants informed and to regularly remind them to report changes in circumstances.</p> <p>Management should also review the exchange of information between Housing Options and the Housing Benefit Service.</p>	Other local councils in North Yorkshire will be contacted to learn more about alternative communication methods and how information flows between housing services and benefits' services can be improved.
Sundry Debt Recovery	Substantial Assurance	<p>We reviewed the sundry debtors system to ensure:</p> <ul style="list-style-type: none"> Debt recovery and write-offs are operated in accordance with Council Financial Regulations and other relevant legislation and guidance. Appropriate recovery actions are taken when accounts are not paid within specific time 	March 2016	<p>Strengths Improvements have been made in sundry debt recovery since our audit last year. Invoices have been raised and debt recovery action has taken place in a timely manner. Debts are no longer placed on hold for long periods of time unnecessarily.</p> <p>Instalment payments are now monitored regularly and placed in recovery queues when appropriate. Testing also showed that when debt was written</p>	<p>The debt recovery policy for market traders will be changed to be in line with the corporate debt recovery policy.</p> <p>Market traders will be charged though direct debt (unless in exceptional circumstances) to help prevent the need for significant time on debt recovery.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>scales and recovery guidelines are in place to facilitate the collection of arrears.</p> <ul style="list-style-type: none"> • In circumstances where debt recovery becomes problematic then there is appropriate use of alternative debt recovery strategies • A consistent procedure has been established and applied for debtor write-off with all recovery action being exhausted before reaching this point. <p>Our previous review of Sundry Debt recovery was reported to the committee in July 2015 and had a reasonable assurance opinion.</p>		<p>off all recovery actions had taken place and had been appropriately authorised.</p> <p>Weaknesses The Council has clear guidance for recovery actions to take based on the age of the debt. However, the Market Trader debtors come under a separate policy. We found no evidence of any recovery actions for market debts.</p> <p>In 2014/15, 52% of the debt written-off was statutory barred as the debt was 6 or more years old. Debt enforcement agents have not been used since 2012/13. The use of such agents may reduce the amount of debt being statutory barred. The council currently had no guidance for when debt enforcement agents should be used.</p> <p>The housing service department had over 90% of outstanding debt older than 150 days old. At the time of our audit there was no one in post to manage outstanding debt within the department.</p> <p>The Sundry Debtors Policy states credit arrangements should not be longer than a year. At the time of testing there was a number of credit arrangements longer than a year with no exceptional circumstances documented.</p>	<p>Actions to ensure debt is not time barred will include the use of debt enforcement agencies. The sundry debtors' policy will be updated as required.</p> <p>The post in the housing department has been filled. Part of the role is to monitor housing debts.</p> <p>Credit agreements that exceed a year will be reviewed by the Exchequer Assistant and appropriate information put onto the Civica Financials system to state the actions taken.</p>

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	21 APRIL 2016
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	INTERNAL AUDIT PLAN 2016/17
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The purpose of this report is to present to members the internal audit plan for 2016/17.

2.0 RECOMMENDATION

- 2.1 It is recommended that the internal audit plan for 2016/17 be approved.

3.0 REASON FOR RECOMMENDATION

- 3.1 The Overview and Scrutiny Committee has responsibility for overseeing the work of internal audit, and agreeing the plan of work to be undertaken on its behalf by the council's internal auditors in line with good practice as set out in the Public Sector Internal Audit Standards (PSIAS).

4.0 REPORT DETAILS

- 4.1 The work of internal audit is governed by the Public Sector Internal Audit Standards. In accordance with those standards and the council's audit charter, internal audit is required to prepare an audit plan on at least an annual basis. This report includes the internal audit plan for 2016/17.
- 4.2 The internal audit plan has been prepared on the basis of a risk assessment. This is intended to ensure limited audit resources are prioritised towards those systems which are considered to be the most risky and/or which contribute the most to the achievement of the council's priorities and objectives.
- 4.3 The content of the audit plan has been subject to consultation with senior officers and is submitted for formal approval by the Committee. Any changes to the plan required during the year will be discussed and agreed through the council's client management arrangements and will be notified to the Committee.

4.4 The plan includes 225 days for 2016/17.

5.0 IMPLICATIONS

5.1 The following implications have been identified:

- a) Financial
None

- b) Legal
None

- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson
Finance Manager (s151)

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Background Papers:

Public Sector Internal Audit Standards
CIPFA Local Government Application Note (for the United Kingdom Public Sector Internal Audit Standards)

Appendices: Internal Audit Plan 2016/17

RYEDALE
DISTRICT
COUNCIL



Ryedale District Council

Internal Audit Plan 2016/17

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview and Scrutiny Committee
Chief Executive
Finance Manager (s151)

Date: April 2016


Assurance Services for
the Public Sector

Introduction

- 1 This document sets out the planned 2016/17 programme of work for internal audit, provided by Veritau for Ryedale District Council.
- 2 The work of internal audit is governed by the Public Sector Internal Audit Standards. In accordance with those standards and the Council's Audit Charter, internal audit is required to prepare an audit plan on at least an annual basis.
- 3 The Head of Internal Audit is required to produce an annual internal audit opinion to the Council based on an objective assessment of the effectiveness of the framework of Risk Management, Governance and Internal control. Our planned audit work includes coverage of all three areas to develop a wider understanding of the assurance framework of the Council and provide a fully informed body of work to provide that opinion.
- 4 The internal audit plan has been prepared on the basis of a risk assessment. This is intended to ensure limited audit resources are prioritised towards those systems which are considered to be the most risky and/or which contribute the most to the achievement of the District Council's priorities and objectives. The content of the internal audit plan has been subject to consultation with directors and other senior officers.
- 5 The internal audit plan is submitted for formal approval by the Overview and Scrutiny Committee who are also responsible for monitoring progress against the plan. Changes to the plan will be agreed with the Finance Manager (s151) and will be notified to this committee. Proposed work is also discussed with the Council's external auditors to ensure there is no duplication of effort. We will provide regular updates on the scope and findings of our work to the Overview and Scrutiny Committee throughout 2016/17.
- 6 The plan is based on a total commitment of 225 days for 2016/17, which is in line with last years plan.

2016/17 Audit Plan

- 7 The plan has been structured into the following sections:
 - **Strategic Risks;** this work involves reviewing areas highlighted as specific risks in the risk register.
 - **Fundamental/Material Systems;** to provide assurance on the key areas of financial risk. This work will help provide assurance the internal controls on these key systems for the Council are working effectively and the risks of loss are minimised. The work will also support the work of the external auditors.
 - **Regularity Audits;** to provide assurance on those areas identified through Veritau's risk based assessment. This work will cover a number of the governance frameworks which the Council rely on to provide

assurance that key areas of the business are operating effectively. We have also identified a number of service risk areas to review.

- **Technical/Projects;** to provide assurance on those areas of a technical nature and where project management is involved. These areas are key to the Council as the risks involved could detrimentally effect the delivery of services.
- **Client support, Advice and Follow Up;** This is work that supports the Council in its functions and provides assurance on ad-hoc matters and the adoption of findings we have reported in previous years.

8 The Council is undertaking a significant transformation programme and so 2016/17 is a very important year to develop, introduce and embed the new thinking and arrangements. We have included specific work to challenge and support those developments.

9 Details of the 2016/17 plan are set out in **Appendix A**

Risk No	Risk	Audit	Scope	Days
08	Failure to produce effective, comprehensive and tested plans for Emergency Planning and Business Continuity.	Business Continuity	A follow up of the progress being made implementing the arrangements to ensure compliance with the Civil Contingencies Act 2004 and the need for established business continuity and disaster recovery procedures.	5
		Disaster Recovery	We will also follow up the progress made on the ICT disaster recovery arrangements.	5
03	Failure to effectively manage and develop our workforce assets	Training	A review of the effectiveness of the Council's arrangements to deliver the training aims and objectives of the Council.	10
12	Failure to meet customer service standards and meet customer expectations.	Customer Expectations	To provide advice, guidance and challenge to the 'Towards 2020' transformation programme. The allocation of time will also include assurance on overall monitoring and governance arrangements or support to specific work streams and aspects of the programme. We will review the delivery of the transformation in a sample of areas to consider the extent to which the 'Towards 2020' procedures, aims and objectives are being delivered.	20
15	Council fails to meet efficiency targets which necessitates cuts to other services	Delivering Efficiencies		
14	The Council recognises the importance of data quality.	Performance Management and Data Quality	A review of the Council's performance management framework along with the systems for capturing key performance data. We will include a review of the use of key corporate systems, in particular Covalent, in enabling effective performance management.	10

Financial Systems Audits

Audit	Scope	Days
Housing Benefits	To review the key risks/controls involved in awarding and paying benefits including the Council Tax Support Scheme.	15
Payroll	A review of the key risks/ controls of the payroll system.	15
Council Tax/NNDR	A review of the key risks/controls for the setting and collection of local tax including performance management arrangements.	10
Sundry Debtors	A review focusing on the effectiveness of the systems of debt recovery.	8
Creditors	To review the key risks/controls surrounding the payment of Creditors invoices.	8
Income	To review the key risks/controls surrounding the receipting and balancing of monies received. We will also review the strategic arrangements for income collection to appraise how the Council maximises the monies it can receive.	10
General Ledger	A review of the key controls in the General Ledger given the changes to banking arrangements.	4
		70

Regularity Audits

Audit	Scope	Days
Contract Management	A review of the operational effectiveness of the Council's corporate arrangements on contract management including review of specific schemes.	15
Risk Management	A review of the effectiveness of the Risk Management arrangements to highlight and robustly manage the key strategic risks of the Council.	10
Environmental Health	To review the management of the key performance and operational risks within Environmental Health, with a specific focus on private water supplies.	10
General Network and Key System Controls	A review of access controls to the Council's network and a sample of systems to ensure they are working as designed and manage information risks appropriately.	10
		45

Technical/Project Audits

Audit	Scope	Days
Data Protection and Security	To undertake unannounced visits to establish the extent to which the Council's expectations of data security of sensitive information, including the clear desk policy are being followed.	10
IDEA data analytics and data matching	An allowance of time to undertake data matching and analytics to support the Transformation programme, review large scale data sets to improve data quality and to identify data inconsistencies.	5
Strategic Asset Management	To review and support the asset management arrangements with a particular focus on the Council's corporate landlord responsibilities.	5
		20

Client Support, Advice and Follow up

Area	Days
Committee Preparation and Attendance	12
External Audit Liaison	2
Miscellaneous Advice and support	8
Corporate Issues (including audit planning and client liaison)	10
Follow up of previous years findings	8
	40
TOTAL PLANNED DAYS	225

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External audit progress report and technical update

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Ryedale District Council

April 2016

Agenda Item 9

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					
External audit progress report					3
KPMG RESOURCES					
KPMG Local Government Budget Survey					5
KPMG publication titled: Value of Audit: Perspectives for Government					6
TECHNICAL UPDATE					
New local audit framework	●	8	2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – update	●	15
The LGA's 2015 Spending Review submission	●	9	Capital Receipts Flexibility	●	16
DCLG consultation on pension fund investment reform	●	10	PSAA update – VFM profiles February 2016 release	●	17
Accounts and Audit Regulations 2015 – Narrative statements	●	11	Greater Manchester Combined Authority	●	18
Accounts and Audit Regulations 2015 – Exercise of public rights	●	12	Proposed changes to business rates and core grant	●	19
Consultation on 2016/17 audit work programme and scales of fees	●	13	Cities and Local Government Devolution Act 2016	●	20
CIPFA briefings on accounting for highways infrastructure assets	●	14			
APPENDIX					
Appendix 1 – 2015/16 audit deliverables					21



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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.

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Area of responsibility	Commentary
Financial statements	<p><i>Our interim audit took place in February 2016. We discussed your systems with key members of the finance team including the Financial Manager and conducted testing of controls of the Council's key financial systems. The systems tested were general ledger, creditors, treasury management, payroll, council tax, business rates and housing benefits.</i></p> <p><i>No major issues were found at interim, with minor improvement points communicated to the Finance Manager.</i></p> <p><i>We will carry out tests of controls of the council's Property Plant and Equipment (PPE) and Pensions systems with specific substantive testing of the Council's accounts as presented in the draft financial statements. This is scheduled to take place in July 2016 in advance of the production of the ISA 260 report in September.</i></p>
Value for Money	<p><i>Details of our approach are set out in the plan which is part of the agenda.</i></p>
Certification of claims and returns	<p><i>We have held a set up meeting for the Housing Benefit Work in April. We expect to carry out the work in the late summer.</i></p>



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KPMG resources

Area	Comments
<p data-bbox="64 318 259 411">KPMG Local Government Budget Survey</p> <p data-bbox="95 544 136 705">Page 46</p>	<p data-bbox="292 318 1976 379">KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including:</p> <ul data-bbox="292 396 1038 662" style="list-style-type: none"> <li data-bbox="292 396 816 425">■ The content of budget monitoring reports; <li data-bbox="292 444 503 472">■ Savings plans; <li data-bbox="292 491 596 519">■ Invest-to-save projects <li data-bbox="292 538 712 566">■ The type of savings being made; <li data-bbox="292 585 1038 614">■ Assumptions underlying the medium term financial plan; and <li data-bbox="292 632 582 661">■ Reserve movements. <p data-bbox="292 681 1877 742">The Survey also poses questions for management and members to consider when reviewing their budget setting and budget monitoring processes.</p> <p data-bbox="292 761 1483 789">For more information, and a copy of the report, please contact Rob Walker at rob.walker@kpmg.co.uk</p>

Area	Comments
<p data-bbox="64 318 271 504">KPMG publication titled: <i>Value of Audit – Perspectives for Government</i></p> <p data-bbox="95 725 140 882" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 47</p>	<p data-bbox="292 318 692 347">What does this report address?</p> <p data-bbox="292 365 1991 486">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 data-bbox="292 508 1984 601">Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) 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 data-bbox="292 622 609 651">What are the key issues?</p> <ul data-bbox="292 668 1881 886" style="list-style-type: none"> ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government’s controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits <p data-bbox="292 908 1976 936">The <i>Value of Audit: Perspectives for Government</i> report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html</p> <p data-bbox="292 953 1929 1011">The <i>Value of Audit: Shaping the Future of Corporate Reporting</i> can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx</p>



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Technical update

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Area	Level of impact	Comments	KPMG perspective
<p>New local audit framework</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 49</p>	<p>● Medium</p>	<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>CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established.</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.</p>	<p><i>Members may wish to review the CIPFA guidance and begin initial discussions with colleagues about the approach the Authority may wish to adopt.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>The LGA's 2015 Spending Review submission</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 50</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 <i>A Shared Commitment</i> (www.local.gov.uk/documents/10180/6869714/L15-252+Spending+Review_WEB_new.pdf/3101e509-1e22-4c26-91ac-8fd8a953aba5), 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"> ■ 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; ■ 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"> – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ 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 ■ 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. 	<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
DCLG consultation on pension fund investment reform	<p style="text-align: center;">●</p> <p style="text-align: center;">Low</p>	<p>The Department for Communities and Local Government (DCLG) has recently closed a consultation on revised regulations for the investment of local government pension scheme assets. The proposed regulations include the proposal to allow pension schemes to pool assets for investment purposes.</p> <p>The revised regulations can be found here at www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</p> <p>The outcome of the consultation will be published here: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme</p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Accounts and Audit Regulations 2015 – Narrative statements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 52</p>	<p style="text-align: center;">● Low</p>	<p>Authorities will need to be aware that the <i>Accounts and Audit Regulations 2015</i> require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states:</p> <p><i>Narrative statements</i></p> <ol style="list-style-type: none"> 1) <i>A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.</i> 2) <i>A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.</i> <p>Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge.</p> <p>The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's <i>Code of Practice on Local Authority Accounting</i> (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.</p>	<p><i>The Committee may wish to seek assurances that their authorities have arrangements in place to meet the new requirements.</i></p>

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Exercise of public rights	<p style="text-align: center;">● Low</p>	<p>Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards.</p> <p>Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced.</p> <p>Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place <i>until after the conclusion of the period for the exercise of public rights</i>.</p> <p>As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.</p>	<p><i>The Committee may wish to seek assurances that the necessary arrangements are in place for their Authority.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Consultation on 2016/17 audit work programme and scales of fees</p> <p>Page 54</p>	<p>● Low</p>	<p>Public Sector Audit Appointments Ltd (PSAA) published its consultation on the 2016/17 proposed work programme and scales of fees.</p> <p>The consultation set out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/</p> <p>There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.</p> <p>Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings.</p> <p>PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly.</p> <p>The work that auditors will carry out on the 2016/17 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.</p> <p>The consultation closed on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016. The scale fee remains unchanged at £41,826.</p>	<p><i>The Committee may wish to seek assurances on how their Authority have responded to the consultation.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>CIPFA briefings on accounting for highways infrastructure assets</p>	<p>● Low</p>	<p>CIPFA has published the first of a series of briefings on highways infrastructure assets.</p> <p>The first briefing focuses on the decisions made by CIPFA/LASAAC Local Authority Accounting Board following its consultation on the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</i>. The briefing also covers the applicability of the measurement requirements for district councils and the resources available to support the implementation process. In particular the briefing notes:</p> <ul style="list-style-type: none"> ■ the change to recognising the assets using the depreciated replacement cost approach will be prospective, so will not require the 2015/16 accounts to be restated; and ■ district councils are unlikely to meet the definition of having a single highways network asset, although they will need to reach their own view on this. <p>The first briefing can be found at www.cipfa.org/~media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/final%20briefing%20hna%20no%201.pdf?la=en</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – update</p> <p>Page 56</p>	<p>● Low</p>	<p>CIPFA/LASAAC has issued an update to the <i>2015/16 Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.</p> <p>Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.</p> <p>The Code update also includes amendments as a result of legislative changes and particularly the <i>Accounts and Audit Regulations 2015</i> for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.</p>	<p><i>The Committee may wish to seek assurances that their Authority is aware of the update to the 2015/16 Code.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Capital receipts flexibility</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 57</p>	<p>● Low</p>	<p>The 2015 Spending Review included an announcement that local authorities would be able to use capital receipts on the revenue costs of service reform projects. The Department for Communities and Local Government (DCLG) has now issued guidance on the capital receipts flexibility, including a draft direction setting out the types of project that would qualify and expected governance and transparency framework. In summary:</p> <ul style="list-style-type: none"> ■ the flexibility is available from 1 April 2016 to 31 March 2019; ■ only capital receipts generated during that period can be used for the flexibility; ■ the Secretary of State’s direction will have the effect of allowing authorities to treat revenue expenditure on service reform as capital during the three year period; ■ authorities will not be allowed to borrow to fund revenue expenditure on service reform; and ■ authorities are required to have regard to a statutory code which contains certain transparency requirements when taking advantage of the flexibility. <p>We understand that DCLG’s aim is that the final signed direction will be issued with the final settlement in February 2016.</p> <p>A copy of the draft guidance can be found at www.gov.uk/government/uploads/system/uploads/attachment_data/file/486999/Capital_receipts_flexibility - draft statutory guidance and direction.pdf</p>	<p><i>The Committee may wish to seek assurances how their Authority is planning to use the new flexibility.</i></p>

Area	Level of Impact	Comments
PSAA update – VFM profiles March 2016 release	<p style="text-align: center;">●</p> <p style="text-align: center;">For Information</p>	<p>Public Sector Audit Appointments Ltd (PSAA) updated its Value for Money Profiles Tool (VFM profiles) on 3 February 2016.</p> <p>The VFM profiles have been updated with the 2014-15 data sourced from the Department for Communities and Local Government – General Fund Revenue Outturn Budget (RO). The values are adjusted with gross domestic product (GDP) deflators from HM Treasury's publication in November 2015. The profiles can be accessed through the PSAA website at www.psaa.co.uk/</p>

Area	Level of Impact	Comments
<p>Greater Manchester Combined Authority</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 59</p>	<p>●</p> <p>For Information</p>	<p>Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. ‘Devo Manc’ encompasses a broad range of proposals to address the challenges and opportunities GM is facing:</p> <p>Health and Social Care</p> <p>Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care.</p> <p>As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested.</p> <p>GM proposals</p> <p>In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region:</p> <ul style="list-style-type: none"> ■ Investment in transport infrastructure ■ New funding mechanisms to support site remediation and infrastructure provision ■ Making better use of Social Housing Assets to support growth ■ Locally led low carbon ■ A scaled-up GM Reform Investment Fund ■ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance ■ Fundamental review of the way services to children are delivered ■ Research and innovation funding ■ Investment in integrated business support to drive growth and productivity ■ Reform of the New Homes Bonus ■ Further employment and skills reform ■ GM approach to data sharing across public agencies ■ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax <p>All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.</p>

Area	Level of Impact	Comments
<p>Proposed changes to business rates and core grant</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 60</p>	<p>●</p> <p>For Information</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 £0.02 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>

Area	Level of Impact	Comments
Cities and Local Government Devolution Act 2016	<p style="text-align: center;">●</p> <p style="text-align: center;">For Information</p>	<p>Authorities will wish to note that the Cities and Local Government Devolution Act 2016 received Royal Assent on 28 January 2016. The Act provides the enabling legislation to:</p> <ul style="list-style-type: none"> ■ allow for the election of mayors for a combined authority area; ■ allow for the devolution of functions, including transport, health, skills, planning and job support; and ■ provide a power to establish sub-national transport bodies which will advise the Government on strategic schemes and investment priorities in their own area. <p>Most of the changes under the Act, including the implementation of ‘devolution’ deals, will be implemented by Orders to be made under the Act.</p>



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Appendix

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Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	Completed
Interim			
Interim Verbal Report	Details and resolution of control and process issues. Identify 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.	March 2016	Completed
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 2016	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	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.	November 2016	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 2016	TBC



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