



Technical update

Incorporating the External Audit Progress Report

Barnsley Metropolitan Borough Council

November 2016

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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**

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 Clare Partridge, 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.



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	<p>We have issued you the 2015/16 Annual Audit Letter.</p> <p>The 2016/17 audit planning has started and we will provide you with our early thoughts at the January 2017 audit committee with the Audit Plan going to the February 2017 Audit Committee.</p>
Value for Money	<p>We have issued you the 2015/16 Annual Audit Letter.</p> <p>The 2016/17 audit planning has started and we will provide you with our early thoughts at the January 2017 audit committee with the Audit Plan going to the February 2017 Audit Committee.</p>
Certification of claims and returns	<ul style="list-style-type: none"> • Housing Benefit Subsidy (Ben01) 2015/16 - This work is almost complete and a qualification letter has been agreed with officers and the deadline of 30 November 2016 will be met. • Pooling of Housing Receipts (CFB06) 2015/16 – This work is complete and certification has taken place – no issues to report. • Teachers Pensions Return (TP05) 2015/16 – This work is complete and certification will take place prior to the 30 November 2016 will be met.
Other work	<p>The external audit of the Barnsley MBC subsidiary companies is ongoing and we will report the findings to the Directors in due course.</p>



KPMG resources

Inspiring innovative government

@gov is a government-focused digital magazine hosted on kpmg.com. Fresh content is added to @gov on a monthly basis and printable digest versions are produced twice annually. Each edition examines a new theme, the first of which is *Transforming government in the age of technology*.

This first edition contains a range of articles, which include articles on:

- establishing digital identities for citizens;
- government data sharing;
- the public policy imperatives of autonomous vehicles; and
- innovations in human service delivery.

The magazine can be downloaded as a PDF from kpmg.com/atgov

Chief Accountant training events

We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2016/17 close down and statement of accounts.

The workshops will be led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh. Details of the agenda and dates will be provided in due course.

For more information, please contact Matthew Moore email: matthew.moore@kpmg.co.uk. Tel: 07468 369807

Publication 'Value of Audit – Perspectives for Government'

What does this report address?

This report builds on the Global Audit campaign – *Value of Audit: Shaping the future of Corporate Reporting* – 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.

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.

What are the key issues?

- 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

The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at <https://home.kpmg.com/xx/en/home/insights.html>

The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

Publication 'Reimagine – Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

Council cash crunch: New approach needed to find fresh income

- By 2020, councils must generate all revenue locally.
- More and more are looking towards diversifying income streams as an integral part of this.
- Councils have significant advantages in becoming a trusted, independent supplier.
- To succeed, they must invest in developing commercial capability and capacity.

Councils can save more than cash by sharing data

- Better data sharing in the public sector can save lives and money.
- The duty to share information can be as important as the duty to protect it.
- Local authorities are yet to realise the full value of their data and are wary of sharing information.
- Cross-sector structures and the right leadership is the first step to combating the problem.

English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership.
- Devolution in areas like criminal justice will help address complex social problems.
- Making councils responsible for raising budgets locally shows the radical nature of these changes.
- Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

Senior public sector pensions

- Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
- 'Analyse, control, engage' is the bedrock of an effective strategy.

Time for the *Care Act* to deliver

- Momentum behind last year's *Care Act* risks stalling.
- Councils are struggling to create an accessible care market with well-informed consumers.
- Local authorities must improve digital presence and engage providers.
- Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website <https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html>

Publication 'The future of cities'

We are delighted to share *The future of cities*, a report that helps local government leaders build and evaluate sustainable cities for their current and future generations.

What is *The future of cities*?

The future of cities is a global report that follows from the UK firm's thought leadership partnership with the City of Bristol and the work surrounding its European Green Capital 2015 designation. The report is broken into two modules that draw on the expertise of KPMG practitioners around the world and includes a range of case studies to ensure you find approaches relevant to your context.

The first module, *The future of cities: creating a vision*, explains the central role of vision in the success of second cities, identifying seven guiding principles to make cities more attractive. Examples are provided of various cities around the globe that are putting some of these principles into action.

The second, *The future of cities: measuring sustainability*, discusses some of the ways in which cities are being measured and how these metrics could evolve. More important, it provides practical examples of what leading cities are doing, the lessons to be learned and how these can be applied to other cities.

This content is now featured on kpmg.com/futurecities where readers can access a broader collection of reports and shorter opinion pieces from KPMG's leading thinkers on different aspects on how to create better, more sustainable places to live and work.



Technical developments

Appointment of external auditor

Level of impact: ● (Medium)	KPMG perspective
<p>Following the Audit Commission's closure local authority external audits are currently governed by transitional arrangements under the <i>Local Audit and Accountability Act 2014</i>, with audit contracts overseen by Public Sector Audit Appointments Ltd (PSAA). These transitional arrangements end with the audit of 2017/18 financial years, so auditors must be appointed under the new arrangements from 2018/19. In practice this decision must be made by 31 December 2017. There are three main options for local authorities to consider:</p> <ol style="list-style-type: none"> 1. Undertake an individual auditor procurement and appointment exercise; 2. Undertake a joint audit procurement and appointing exercise with other bodies, for example those in the same locality; or 3. Join a 'sector led body' arrangement where an approved third party procures audit on behalf of multiple bodies. <p>As the relevant supervisory body, the Institute of Chartered Accountants in England and Wales (ICAEW) maintains a register of audit firms and 'key audit partners' who have been recognised as meeting the eligibility criteria for local audit. Whatever the approach taken, local authorities can only appoint audit firms from the ICAEW register. KPMG has been registered by ICAEW for local audit work and has 21 Partners and Directors recognised as meeting the eligibility criteria, providing comprehensive national coverage through an experienced senior team.</p> <p>For options 1 and 2, the Act requires an Auditor Panel to be established. Guidance on auditor panels at local authorities has been issued by the CIPFA – see www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf</p> <p>One option, subject to complying with EU procurement rules, might be to continue with your current auditor for an initial period. Although this would delay testing the market, fees could be benchmarked for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and avoid the 'rush to market' as other local authorities undertake procurement exercises within a short time period, allowing tendering later in a more settled market.</p>	<p><i>Members may wish to discuss the options open to them on how to procure their auditor for 2018/19 and beyond and ensure they formulate a timetable for making this decision.</i></p>

Appointment of external auditor (cont.)

Level of impact: ● (Medium)	KPMG perspective
<p>The Audit Commission produced a report and slide pack summarising the lessons learnt from its 2012 and 2014 procurements of audit services, providing the reader with a list of factors that contributed to the delivery of successful outcomes for both procurements. A copy of this document can be found on the PSAA website at www.psaa.co.uk/wp-content/uploads/2016/01/Learning-the-lessons-from-the-2012-and-2014-Audit-Commission-procurements-of-audit-services.pdf</p> <p>The lessons learnt may be helpful in generally informing procurements of audit services undertaken by individual local public bodies or collective procurement bodies under the new arrangements. However, it should be noted that the procurements undertaken by the Audit Commission were unique to the Commission's regime and the approaches taken may not be relevant in their entirety to other procurements.</p> <p>For option 3, in July 2016 the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the <i>Local Audit (Appointing Person) Regulations 2015</i>. This means that PSAA can make auditor appointments from 2018/19 to relevant principal authorities that choose to opt into its national collective scheme. The PSAA has written to all audited bodies inviting them to join the PSAA-led central procurement, and has given bodies until 9 March 2017 to choose to opt in. For further information, see the PSAA's website = www.psaa.co.uk/supporting-the-transition/appointing-person/</p>	

Business Rates Retention

Level of impact: ● (Medium)	KPMG perspective
<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>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.</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> <p>Committee members may wish to be aware that, as a result of these proposals, DCLG has launched two consultations on its proposals for 100% retention of business rates by the local government sector.</p> <p>The first consultation seeks to identify issues that should be kept in mind when designing the reforms; the second is a call for evidence to inform the government's fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. Both consultations closed on 26 September 2016.</p> <p>The consultation documents are available for both consultations at www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention</p>	<p><i>The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.</i></p>

NAO Report on Capital Expenditure and Resourcing

Level of impact: ● (Low)	KPMG perspective
<p>Committee members may wish to be aware that the National Audit Office has published its report <i>Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing</i>. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.</p> <p>The report can be accessed via the NAO website at www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>

PSAA's Value For Money Tool

Level of impact: ● (Low)	KPMG perspective
<p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 3 October 2016.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none"> — General fund revenue account budget (RA) (2016/17) — Child and working tax credit statistics (2014/15) — Children in low-income families local measure (2015) — Chlamydia testing activity dataset (CTAD) (2015) — Climate change statistics: CO2 emissions (2014) — Collection rates for council tax and non-domestic rates in England (2015/16) — Council tax demands and precepts statistics (2016/17) — Fuel poverty sub-regional statistics (2014) — Homelessness statistical release (P1E) (2015/16) — Housing benefit speed of processing (2015/16) — Mid-year population estimates (2015) — NHS health check data (2015/16) — Planning applications (2015/16) — Schools, pupils and their characteristics (2015/16) — Young people from low income backgrounds progressing to higher education (2013/14) <p>The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</p>	<p><i>The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.</i></p>

2015/16 Code of Practice Update

Level of impact: ● (Low)	KPMG perspective
<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>

Local government licensing fees

Level of impact: ● (Low)	KPMG perspective
<p>Following referral from the Supreme Court of the United Kingdom, Advocate General Wathelet has given his opinion on the lawfulness of licence fees in a case involving Westminster City Council.</p> <p>The fee, which was for the grant or renewal of a 'sex establishment' licence in the City of Westminster, was made up of two parts:</p> <ul style="list-style-type: none">— Part A related to the administration of the application (which is nonreturnable if the application is refused); and— Part B (much higher) related to the management and enforcement of the licensing regime, which is refundable if the application is refused. <p>The Supreme Court had asked the Court of Justice of the European Union (CJEU) whether Part B constituted a "charge", which was therefore prohibited by Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market ("the Services Directive").</p> <p>Advocate General Wathelet recommended a finding to the CJEU that the Services Directive must be interpreted as precluding Westminster from taking into account, when calculating the fee due for the grant or renewal of an authorisation, the cost of managing and enforcing the authorisation scheme (part B), even if the part corresponding to that cost is refundable where the application for the grant or renewal of the authorisation in question is refused.</p>	<p>The Committee may wish to seek assurance that the Authority has considered this judgement and has taken action to ensure that its licencing fees are calculated in an appropriate manner.</p>

CIPFA publication on understanding the financial statements

Level of impact: ● (Low)	KPMG perspective
<p>CIPFA has published a new report titled <i>Understanding Local Authority Financial Statements</i>. This is an update of its previous publication <i>How to Tell the Story</i>.</p> <p>The report can be found on the CIPFA/LASAAC pages of the CIPFA website at www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements</p> <p>Further to this report, CIPFA/LASAAC undertook a consultation on proposals for the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom. The headline changes were:</p> <ul style="list-style-type: none"> — a new principles-based approach to narrative reporting. — a review of the Code's provisions on going concern reporting. — a review of accounting policies provisions in the Code. — new disclosure on transaction costs for pension fund investments. — narrow scope amendments to International Financial Reporting Standards. — legislative changes. — a new appendix including the provisions for the Code's adoption of IFRS 9 Financial Instruments (note this new appendix will apply to the 2018/19 financial statements). — a new appendix including provisions for the Code's adoption of IFRS 15 Revenue from Contracts with Customers (note this new appendix will apply to the 2018/19 financial statements). <p>The details of the consultation can be found at www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment</p>	<p><i>The Committee may ask whether their Authority have provided their views in the consultation.</i></p>

NAO report – Children in need of help or protection

Level of impact: ● (Low)	KPMG perspective
<p>The NAO has recently published a report entitled <i>Children in need of help or protection</i> which may be of interest to members.</p> <p>The report finds that the actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality. NAO analysis found that spending on children’s social work, including on child protection, varies widely across England and is not related to quality. Neither the Department for Education nor authorities understand why spending varies.</p> <p>The report finds that nationally the quality of help and protection for children is unsatisfactory and inconsistent, suggesting systemic rather than just local failure. Ofsted has found that almost 80% of authorities it has inspected since 2013 are not yet providing services rated as Good to help or protect children. Good performance is not related to levels of deprivation, region, numbers of children or the amount spent on children in need. Ofsted will not complete the current inspection cycle until the end of 2017, a year later than originally planned. The Department does not therefore have up-to-date assurance on the quality of services for 32% of local authorities.</p> <p>The report also notes that children in different parts of the country do not get the same access to help or protection, finding that thresholds for accessing services were not always well understood or applied by local partners such as the police and health services. In Ofsted’s view some local thresholds were set too high or low, leading to inappropriate referrals or children left at risk. In the year ending 31 March 2015 there were very wide variations between local authorities in the rates of referrals accepted, re-referrals, children in need and repeat child protection plans.</p> <p>The report is available from the NAO website at www.nao.org.uk/report/children-in-need-of-help-or-protection/</p>	<p><i>The Committee may request assurances that their Authority are addressing the issues raised in the report.</i></p>

Discharging Older Patients From Hospitals

Level of impact: ● (For Information)

On 26 May the NAO published a report, *Discharging older patients from hospitals*, which may be of interest to Committee members. The report is available from the NAO website at www.nao.org.uk/report/discharging-older-patients-from-hospital/

The report finds that the health and social care system's management of discharging older patients from hospital does not represent value for money. It also finds that keeping older people in hospital longer than necessary is an additional and avoidable pressure on the financial sustainability of the NHS and local government.

Following this report, the Public Accounts Committee (PAC) published a report in June 2016 following its own hearings on the matter.

The PAC report finds that older patients are increasingly experiencing delays in being discharged from hospital. Such delays are bad for their health, and for the financial sustainability of the NHS and local government. The report notes that there have been improvements and many in the NHS and local government are putting in significant efforts, but the Department of Health, NHS England and NHS Improvement have failed to address long-standing barriers to the health and social care sectors sharing information and taking up good practice. The result is unacceptable variation in local performance. The report concludes that patients and the NHS have a right to expect better.

Members may wish to be aware of the report in order to inform their planning considerations, particularly in relation to value for money arrangements. The PAC report can be found here: www.publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/76/7602.htm

Government contracting

Level of impact: ● (For Information)

The NAO has recently published an overview of its work on the government's management of contracting which Committee members may wish to be aware of, particularly in relation to value for money arrangements.

The publication examines subjects including the government's commercial capability, accountability and transparency, and its management of contracted-out service delivery. It finds that government now spends about £225 billion a year with private and voluntary providers. The role of providers in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high profile commissioning arrangements in sensitive public service areas such as health and justice

The overview is available from the NAO website at www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/

NAO speaks at the Institute for Government

Level of impact: ● (For Information)

The Comptroller & Auditor General, Sir Amyas Morse, recently made a keynote speech at the Institute for Government about the need for greater prioritisation in government, and made a case for recognising and addressing the skills gap in the civil service, particularly in digital skills.

In the light of the EU referendum result, he also highlighted the need for government to take a more strategic approach, including deprioritising some issues.

The full text of the speech can be at www.nao.org.uk/event/keynote-speech-by-sir-amyas-morse-kcb-21-july/



Appendix

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	February 2017	TBC
Interim			
Interim 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.	April 2017	TBC
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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