Purpose of report
To provide an overview of audit progress and a technical update prepared by the Council's External Auditors, KPMG.

Attachment(s):
Appendix 1 – External Audit Technical Update and Progress Report

1.0 Introduction
1.1 KPMG are the Council's appointed External Auditors for 2015/16 and 2016/17.

2.0 External Audit Progress
2.1 The document in Appendix 1 provides the Governance and Audit Committee with an overview of progress by KPMG in delivering their responsibilities as the council's external auditors.

2.2 The report highlights the following:
   • What work has been undertaken in preparation for 2016/17 audit (page 4)
   • Summary of upcoming work (page 5)
   • 2016/17 Audit Deliverables (page 12)

3.0 Technical Update
3.1 The report also highlights the main technical issues which are currently having an impact on local government.

3.2 Further detail on the technical updates can be seen in the report at Appendix 1 (page 6-10).

4.0 Equality and Diversity Implications
4.1 There are no known equalities issues arising from this report.

5.0 Legal Implications
5.1 There are no known legal implications arising from this report.

6.0 Risk Management
6.1 Key risks arising from the audit of financial statements were included in the Annual Audit Letter which is reported under a separate report to Governance and Audit Committee.

7.0 Resource and Financial Implications
7.1 There are no known implications to resources or finances arising from this report.
8.0 Constitutional Implications

8.1 The report does not require any amendment to the Council’s Constitution.

9.0 Customer Service Implications

9.1 There are no customer service implications arising from the report.

10.0 Corporate Outcomes

10.1 This report links to the Corporate Outcome of Effective Management.

(Demonstrating financial sustainability over the medium term, contributing to the effective management of the Council)

11.0 Recommendations

11.1 The Governance and Audit Committee is asked to note the contents of this report.

(Reason: This is an information report which sets out the progress by the external auditors and technical updates)

<table>
<thead>
<tr>
<th>Legal</th>
<th>Power: Local Audit &amp; Accountability Act 2014 and the National Audit Office Code of Audit Practice.</th>
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<tbody>
<tr>
<td></td>
<td>Other considerations:</td>
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<tr>
<th>Background Papers:</th>
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| Person Originating Report: Michelle Drewery, Finance Manager |
| mdrewery@east-northamptonshire.gov.uk                        |

<table>
<thead>
<tr>
<th>Date: 6/06/17</th>
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<tr>
<th>CFO</th>
<th>MO</th>
<th>CX</th>
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(Committee Report Normal Rev. 22)
External Audit Progress Report and Technical Update

East Northamptonshire District Council
June 2017
This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For information
External audit progress report

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 deliverables is provided in Appendix 1 of this report.

<table>
<thead>
<tr>
<th>Area of responsibility</th>
<th>Commentary</th>
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<tbody>
<tr>
<td><strong>Financial statements</strong></td>
<td>In order to form our opinion on the Authority's financial statements, we review the key financial systems across the organisation to gain assurance over the design and implementation of the controls in place that address the key risks within each system. The strength of the control framework informs the substantive testing we complete during our final accounts visit. This work was completed at our interim visit in March this year. As part of this, we completed an assessment of the general IT controls in place at the Authority. We had some difficulties in timely completion of the general IT controls work due to non-availability of some core team members. We have not identified any specific control weaknesses that we would like to bring to your attention at this stage. The final accounts visit is due to take place in July 2017.</td>
</tr>
<tr>
<td><strong>Value for Money</strong></td>
<td>Our value for money work is in progress and is due to be completed in July 2017. As part of this process we have been meeting with senior officers in the Authority to discuss in more detail the value for money arrangements and future challenges facing their respective department. The results of these discussions will feed into our 2016/17 Value for Money conclusion. This work has also involved reviewing the Authority's Committee papers and budget monitoring reports, and will include review of the final outturn position.</td>
</tr>
<tr>
<td><strong>Other work</strong></td>
<td>Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim and capital polling claim. We have shared our detailed prepared by client (PBC) list with the Housing staff and agreed the date for the final field visit.</td>
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</table>
Technical developments
<table>
<thead>
<tr>
<th>Level of impact: ☀ (Medium)</th>
<th>KPMG perspective</th>
</tr>
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<tbody>
<tr>
<td>On Wednesday 8 March 2017, the CIPFA/LASAAC Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. This follows its decision in December 2016 to delay the implementation until at least the 2017/18 financial year. The Board took the decision not to proceed because the benefits are outweighed by the costs of implementation for local authorities. Another factor was the absence of central support for key elements of the valuation. The update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the accounting code) has also been issued which confirms the removal of the requirement for 2016/17. Further information can be found on the CIPFA website at <a href="http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/ifrsbased-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-the-code">www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/ifrsbased-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-the-code</a></td>
<td>The Committee is asked to note CIPFA’s decision.</td>
</tr>
</tbody>
</table>
Technical developments

PSAA’s Value For Money Tool

Level of impact: ○ (Low)

The PSAA’s Value for Money Profiles tool (VFM Profiles) was updated on 3 October 2016.
The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years.
The VFM profiles have also been updated with the latest available data from the following sources:

• 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)

The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing

KPMG perspective

The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.
Technical developments

NAO report: Children in need of help or protection

Level of impact: ☀️ (For Information)

The NAO has recently published a report entitled Children in need of help or protection.

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.

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.

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.

Technical developments

Comptroller and Auditor General (C&AG) keynote speech: ‘The implications of central decision-making on the delivery of frontline services’

Level of impact: 😐 (For Information)

The Comptroller and Auditor General (C&AG), Sir Amyas Morse, gave a keynote speech in February 2017 on The implications of central decision-making on the delivery of frontline services at the Strand Group, the Policy Institute at King’s College London’s signature seminar series.

Drawing on his unique perspective looking across the whole of the public sector, the C&AG explored some of the elements of strategic financial management and planning that influence the success of major reform programmes in connected systems.

The speech examined how central government introduces reforms to locally delivered services to achieve its policy objectives, and the effect of its approach on funding, budgeting and efficiency.

Using the examples of local government, adult social care, and the NHS in England, the C&AG argued that the focus of local public services has shifted from providing ‘more for less’ to providing ‘less for less’, and that the lack of joined-up decision-making and funding arrangements between connected systems can often lead to consequences such as:

— unforeseen conflicting objectives for local bodies;
— cost shunting between parts of connected systems; and ultimately; and
— risks of financial, or service, failure locally.

The C&AG explained how year-on-year funding reductions can impact on the accessibility and quality of the services provided, not only for the local government sector, but across the health and social care system more widely.

The C&AG concluded that central government can do more to understand how assumptions about the efficiencies that may be available are likely to affect their objectives across public services, to help them promptly manage major risks. He urged those in the centre to do more to look outside of their ‘silos’ to understand the complexity and interconnectedness of the environment they are seeking to reform.

Finally, he encouraged central government to work more closely with local bodies to ensure that funding and decision-making arrangements drive not only economy and efficiency, but also effectiveness.

Technical developments

Public Sector Audit Appointments - Updated terms of appointment and statement of responsibilities published

Level of impact: 🌟 (For Information)

On 23 February 2017, Public Sector Audit Appointments Ltd (PSAA), issued the revised document Terms of Appointment: Principal Local Authorities and Police Bodies. There are minimal changes the document issued in September 2015 the re-write is intended to clarify or simplify the arrangements within the document.

PSAA has also issued an updated Statement of Responsibilities of audited and audited bodies Principal Local Authorities and Police Bodies applicable for 2017/18. The Statement explains where the differing responsibilities of auditors and of audited bodies begin and end, and sets out what auditors should expect of the audited bodies in certain areas. The Statement is consistent with those issued previously, but removes references to local NHS bodies and smaller authorities.

Both documents are available on the PSAA’s website at www.psaa.co.uk/appointing-auditors/terms-of-appointment/
# 2016/17 Audit Deliverables

<table>
<thead>
<tr>
<th>Deliverable</th>
<th>Purpose</th>
<th>Timing</th>
<th>Status</th>
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<tbody>
<tr>
<td><strong>Planning</strong></td>
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<tr>
<td>Fee letter</td>
<td>Communicate indicative fee for the audit year</td>
<td></td>
<td>Completed</td>
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<tr>
<td>External audit plan</td>
<td>Outline our audit strategy and planned approach</td>
<td></td>
<td>Completed</td>
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<tr>
<td></td>
<td>Identify areas of audit focus and planned procedures</td>
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<tr>
<td><strong>Substantive procedures</strong></td>
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<tr>
<td>Report to those charged with governance (ISA 260 report)</td>
<td>Details the resolution of key audit issues.</td>
<td>September 2017</td>
<td>Outstanding</td>
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<tr>
<td></td>
<td>Communication of adjusted and unadjusted audit differences.</td>
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<td></td>
<td>Performance improvement recommendations identified during our audit.</td>
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<td></td>
<td>Commentary on the Council’s value for money arrangements.</td>
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<tr>
<td><strong>Completion</strong></td>
<td></td>
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<tr>
<td>Auditor’s report</td>
<td>Providing an opinion on your accounts (including the Annual Governance Statement).</td>
<td>September 2017</td>
<td>Outstanding</td>
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<tr>
<td></td>
<td>Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</td>
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<td>WGA</td>
<td>Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.</td>
<td>September 2017</td>
<td>Outstanding</td>
</tr>
<tr>
<td>Annual audit letter</td>
<td>Summarise the outcomes and the key issues arising from our audit work for the year.</td>
<td>November 2017</td>
<td>Outstanding</td>
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</tbody>
</table>