



# External Audit: Progress Report and Technical Update

**Charnwood Borough Council**

Audit Committee – May 2017

# External audit progress report – May 2017

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At Appendix 1 we have provide a technical update on relevant reports and publications by Department for Communities and Local Government, National Audit Office and other bodies.

Commentary	
<p><b>Summary of work performed since February 2017</b></p>	<p><b>Since the last Audit Committee meeting in February 2017 we have:</b></p> <ul style="list-style-type: none"> <li>Updated our accounts audit opinion and VFM conclusion risk assessments of the Authority;</li> <li>Completed our interim audit work including review of the design and implementation of controls over the CCG's key financial systems;</li> <li>Prepared our technical update attached at Appendix 1 to this report. This provides a technical update on relevant reports and publications by Department for Communities and Local Government, National Audit Office and other bodies.</li> </ul>
<p><b>Updated Independence and objectivity statement</b></p>	<p>We are bringing the Audit Committee's attention to an update to our Independence and Objectivity position statement that we included within our February 2017 Audit Plan, presented to you at the last Audit Committee. Your new Audit Manager, Sundeep Gill, has identified that he has previously carried out custody visits in a voluntary capacity with a member of Cabinet (Councillor Hilary Fryer). Both are current Independent Custody Visitors for the Office of the Police and Crime Commissioner for Leicestershire. There has been no other contact between the parties outside the Independent Custody Visitor scheme (we have very recently found out that Councillor Roy Rollings has recently become an Independent Custody Visitor as well). We discussed this internally with our Ethics and Independent Department and we agreed that the following safeguards were to be put in place with immediate effect in order to preserve our independence and objectivity:</p> <ul style="list-style-type: none"> <li>Sundeep would not undertake any visits with the Cabinet member (this will also apply re Councillor Rollings). Sundeep has informed the Office of the Police and Crime commissioner for Leicestershire to ensure that they are not paired up; and</li> <li>Ensure that the key Finance staff were aware, and also to report the circumstances to the next Audit Committee. We have already informed Finance and we are taking this opportunity to inform the Committee.</li> </ul> <p>In our view, these safeguards are sufficient to preserve Sundeep and the rest of the audit team's objectivity and independence. If any circumstances change then we will update our assessment and report to you as appropriate. We ask that the Committee considers and accepts our assessment.</p>
<p><b>Summary of upcoming work</b></p>	<p><b>Our upcoming work ahead of the September Audit Committee includes:</b></p> <ul style="list-style-type: none"> <li>Continuing to hold regular meetings with officers, including the Strategic Director of Corporate Services, to help identify key issues and emerging technical topics;</li> <li>Completing our work on Value for Money; and</li> <li>Completing our audit of your financial statements.</li> </ul>
<p><b>Actions</b></p>	<p>We ask the Audit Committee to:</p> <ul style="list-style-type: none"> <li>Consider and accept our revised independence and objectivity assessment, and note this progress report and technical update.</li> </ul>



# Appendices

# Appendix 1 - 100% Business Rates Retention - Department for Communities and Local Government (DCLG) consultation

Level of impact: ● (Medium)	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has launched a further consultation on its proposals for 100% retention of business rates by the local government sector. This consultation is part of DCLG's ongoing process of engagement and collaboration on the design of reforms. It seeks views on some of the detailed aspects of the design of the reformed system, including:</p> <ul style="list-style-type: none"><li>— the operation of partial resets;</li><li>— how to measure growth over a reset period;</li><li>— plans for business rate pooling and local growth zones;</li><li>— how to best move to a centrally managed appeals risk system;</li><li>— the approach to tier splits;</li><li>— the operation of a future safety net; and</li><li>— proposals for the central list.</li></ul> <p>The consultation closed on Wednesday 3 May 2017. Details are available on the web-site at <a href="http://www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system">www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system</a></p>	<p><i>The Committee should discuss with officers the potential impact of the proposals on the Council and the actions that may need to be taken to address the challenges presented. We note that the announcement of the national election has impacted on any potential decision on the reforms.</i></p>

# Appendix 1 - NAO Report - Planning for 100% local retention of business rates

### Level of impact: ● (For Information)

The NAO has recently published a report on *Planning for 100% local retention of business rates*. The report finds that the Department for Communities and Local Government (DCLG) has made good progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.

DCLG's core objectives for the scheme, due to start in 2019/20, are to drive local economic growth, and to promote financial self-sufficiency for English local government. The NAO report, however, raises questions as to whether DCLG's current planning approach is best configured to deliver a scheme capable of meeting those objectives fully.

By allowing local authorities to retain 100% of business rates, DCLG hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. The report finds that these issues have not been fully examined in DCLG's work to date. Crucially, DCLG has not looked in detail at whether the current scheme, in which authorities retain 50% of business rates, has promoted pro-growth behaviour in authorities.

DCLG is promoting financial self-sufficiency in the sector through the 100% local retention scheme in the context of a long-term reduction in local authority funding. DCLG is reviewing the relative distribution of funding in the sector through a Fair Funding Review, but there is not scheduled to be a Spending Review in which the absolute level of funding in the sector is reviewed, until after the 100% scheme is operational. In this context, the report highlights the risk of implementing a 100% local rates retention scheme that might be technically sound but lacks sufficient funding for the sector to deliver its statutory functions.

The report recognises that DCLG is managing a complex project, involving extensive sector engagement, and made good progress. The NAO, however, found clear risks to the timely delivery of the 100% scheme. Many significant and challenging issues remain outstanding, such as delivering the Fair Funding Review. Some slippage on meeting milestones to date, constraints on DCLG's resources, and DCLG's intention to concentrate important decisions in a short space of time towards the end of the timetable create the potential for pressure in the late stages of the project. The NAO highlights the risk that the pressure to deliver by 2019/20 could result in a scheme that has not been fully tested. The report also stresses the need for DCLG to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.

A copy of the report can be found on the NAO website at [www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates](http://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates)

# Appendix 1 - NAO Report - Housing in England: overview

Level of impact: ● (For Information)

The NAO has published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. The report notes that in recent years growth has been faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015/16. The most significant element of this is housing benefit. In 2015/16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market.

The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010/11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

The report is available from the NAO website at [www.nao.org.uk/report/housing-in-england-overview](http://www.nao.org.uk/report/housing-in-england-overview)

# Appendix 1 - Comptroller and Auditor General (C&AG) keynote speech: 'The implications of central decision-making on the delivery of frontline services'

### Level of impact: ● (For Information)

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

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

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

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

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

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

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

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

The full transcript of the speech is available on the NAO website at [www.nao.org.uk/wp-content/uploads/2017/02/CAG-speech-Kings-College-London-070217.pdf](http://www.nao.org.uk/wp-content/uploads/2017/02/CAG-speech-Kings-College-London-070217.pdf)

## Technical developments

# Appendix 1 - 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.psa.co.uk/appointing-auditors/terms-of-appointment/](http://www.psa.co.uk/appointing-auditors/terms-of-appointment/)



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