

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
25 October 2016

From: Head of Finance (s151 Officer)

Subject: **STATUTORY AUDITOR – QUARTERLY UPDATE**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to enable the Council's statutory auditor, Ernst & Young LLP, to give an update to the Committee on its activities to date.
- 1.2 Attached as Annex 'A' is a written update and a representative from Ernst Young LLP will be in attendance at the meeting to go over the report. It will also provide an opportunity for Members to question the auditor.

2.0 DECISIONS SOUGHT:

- 2.1 Members are asked to consider the statutory auditor's report and note their comments.

3.0 RISK MANAGEMENT:

- 3.1 There are no risks associated with approving the recommendation.

4.0 RECOMMENDATIONS:

- 4.1 It is recommended that Members note the quarterly update from the auditor.

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Background papers: None

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External Audit Update Report

Hambleton District Council

October 2016



Building a better
working world

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In April 2015, Public Sector Audit Appointments Ltd (“PSAA”) issued the ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psaa.co.uk) (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Corporate Affairs and Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Introduction

The purpose of this report is to provide members of the Audit, Governance and Standards Committee with an update on the progress of our external audit for the year ended 31 March 2016. In particular, it covers:

- ▶ The status of our external audit work; and
- ▶ Our plans for housing benefit testing.

We welcome any comments or feedback on the content of this report or our work undertaken to date.

Status of audit work

Completion of the external audit for the year ending 31 March 2016

We presented our Audit Results Report to the Audit, Governance and Standards Committee on 20 September 2016, setting out the findings from our external audit of the financial statements for the year ending 31 March 2016. Following approval of the accounts and receipt of the signed statements and management representation letter, we issued our unqualified audit report on the accounts, including our conclusion that you had put in place proper arrangements to secure value for money in your use of resources.

Housing benefit claims

We commenced our housing benefit testing as part of the external audit visit which took place in June and July 2016. We will be returning to the Council in October and November 2016 to conclude our work, and will issue our grant certification report by the deadline of 30 November 2016. We have no matters to report arising from our work on housing benefits at this time.

Audit Committee update briefing paper

We attach our most recent Audit Committee briefing paper for local government bodies, which we hope you find helpful.

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Local government audit committee briefing

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This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business.

This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



Government and economic news

EU Referendum

24 June saw the outcome of the referendum concerning the United Kingdom's membership of the European Union. The result was a narrow decision to leave, precipitating the resignation of David Cameron as Prime Minister, and the appointment of Theresa May. David Davis (Secretary of State for Exiting the EU) has been tasked with negotiating the UK's exit from the EU.

EY recognises that our clients will be planning to navigate what lies ahead. As a firm, we have been considering the consequences of both possible outcomes both for ourselves and for our clients.

Some considerations for local authorities include:

- ▶ Local authorities and LEPs are central to driving the growth of the economy in supporting the balance of payments in their localities. There will be a high level of uncertainty for businesses to invest and recruitment following the immediate impact of Brexit
- ▶ There may be an impact on migration. Migration is always an issue for Local Authorities who are usually the end point for housing and location of migrants to the UK as well as employing large numbers in social care
- ▶ Where the workforce of a local authority is made up of significant numbers of staff from EU member countries their working rights post Brexit may be impacted

- ▶ Business rates revenue may reduce if companies that were planning to set up in the UK now choose to set up in an EU member country instead

If you have any questions arising from the referendum result, please don't hesitate to contact your engagement manager.

Off-Payroll working in the public sector: update

As noted in the previous briefing (March 2016) changes have been proposed to the way that individuals who are contracted to work for local authorities by another company pay their tax. Currently, the obligation rests with the intermediary company who is responsible for assessing whether their engagements are subject to IR35 and accounting for PAYE and NIC. From 6 April, this responsibility, and the liability for paying the correct tax will be shifted to the public sector body which pays the company.

In order to simplify this and increase the likelihood of compliance, the Government has suggested that workers are automatically considered to fall within the scope of the new rules if there is the right to personal service and the engager decides, or has the right to decide how the work should be done. In addition, for more complex cases, an online tool will be provided to help engagers in determining whether or not IR35 applies to a particular engagement. In practice, this will require local authorities to collect more personal data from workers who have been contracted via an intermediary company.



Government and economic news

Election data

The government published their Open Government National Action Plan in May 2016. In addition to twelve other commitments designed to improve the transparency of the current government, there is a pledge to develop a common data standard for the reporting of election results throughout the UK. This move is being led by the Local Government Association, and aims to support electoral administrators to adopt this common standard in order to reduce errors and wasted time in aggregating election results.

This is a developing initiative which will require some local authorities to take part in a pilot programme, after which local authorities will be encouraged to take up the process in the 2017 local elections.

Government lending to local authorities

Changes to the way that the central government will lend money to local authorities are currently being consulted on. Following the devolution of borrowing powers in 2004, local authorities take the lead in identifying projects for which they require funding and assessing how much they can afford to borrow, meaning that the decision-making body Public Works Loan Board is no longer required.

The government have suggested the transferral of powers from the now obsolete PWLB to HM Treasury to increase the efficiency of lending to local authorities and ensure more accountability to ministers.



Accounting, auditing and governance

Whole of Government Accounts (2014/15)

The National Audit Office (NAO) has issued a report on the state of the Whole of Government Accounts (WGA) which was released in May 2016. Covering the financial year 2014-15, the annual accounts show that net expenditure has grown from £145.7bn to £152bn. This is in contrast to the government's own fiscal measure, as reported in the National Accounts, which states the deficit as having decreased from £71bn to £57bn.

The increase in net expenditure has been attributed to the decommissioning in the oil, gas and nuclear fields, increases in net interest on pension scheme liabilities and the impact of the triple lock policy on state pensions.

Government expenditure on wages experienced a small increase, from £148.2bn to £148.3bn, in spite of government job losses totalling 20,346. The government also experienced a slight increase in revenue from £652.9bn to £659.3bn, largely attributable to the increases in value added tax.

It should be noted however, that the NAO signalled there were shortfalls in the reporting from a number of departments and organisations.

Government Internal Audit Agency Corporate Plan 2016-17

The Government Internal Audit Agency (GIAA) released their Corporate Plan in May 2016, highlighting their increasing scope in Central Government audit. The GIAA is targeting increased investment in the Agency in order to improve the level of service they provide, as well as providing audit advice across the central government which best targets their needs.

By bringing together several departmental audit functions in their first year of existence, the Agency reached its target of becoming responsible for 50% of central government internal audit. The GIAA will seek to increase this percentage, and has also set the objective of improving Cost Effectiveness by 15%.

Through the establishment of the Internal Audit Framework, the GIAA is continuing to utilise collective buying power to secure access to private sector resources, in order to leverage a specialist service. This allows individual departments to receive auditing services at a lower cost than when they had to seek contracts on a single department basis.

Although the GIAA's priorities remain HM Treasury and the MoD, current customers include six sub-departments encompassed in the Department for Communities and Local Government.

New Highways Network Asset Code of Practice

CIPFA consulted on a Code of Practice on the Highways Network Asset (HNA Code) to replace the Transport Infrastructure Code of Practice in late March/early April this year. Following that process proposed revisions to the consultation draft are to be taken to CIPFA/LASAAC for approval.

CIPFA have announced that the HNA Code will be published in August 2016. Following on from that publication CIPFA will subsequently issue HNA Guidance Notes and HNA Accounting Guidance. These documents will supersede all previously issued Codes and guidance and will therefore be the definitive approach that authorities must follow and auditors will audit to.



Accounting, auditing and governance

DREAM approach to Highways Network Asset

The introduction of Depreciated Replacement Cost accounting for the Highways Network Asset (HNA) in 2016/17 is a major task for both authorities and their external auditors. By following the DREAM approach set out below we believe the task will run smoother.

Document highways systems: almost all highways and engineering IT inventory information has not been subject to audit and lack detailed procedure manuals/notes. Full documentation of the key core data systems should be completed as one of the initial tasks that an authority carries out.

Reports and reconciliations: assess the information requirements of the task and whether the existing systems can produce the required reports and reconciliations or will new reports and reconciliations be needed? Identify any corrective action required.

Evidential based: the quality of the inventory is key to the change. So as well as documentation of inventory systems, establish how you will evidentially prove that the inventory is complete and the named assets exist. This includes key asset dimensions. However, before engaging expensive external contractors to do this consider all the processes that you currently have in place that actually do this ranging from routine cyclical inspections to independent system reviews. Use this to identify areas where 'top-up' work is required.

Audit: early and regular engagement with both internal audit (IA) and external audit (EA) is a key determinant of successful implementation. IA can assist in establishing documentation procedures and can carry out system audits of those systems. Sharing your proposals with EA in advance will reduce the risk of abortive work. Decisions on what work you actually do are a matter for the authority, but the EA will provide comments on proposed approaches.

Materiality: this is a key concept both to the authority as the accounts are stated to include all material items and EA who audit to a calculated materiality level. Materiality has both quantitative and qualitative aspects. In simple terms the quantitative identifies the level at which consideration needs to be given to whether omission of an item or inclusion of an error requires correction. The qualitative level is where a professional judgement is made as to whether correction of that item would influence decisions of the users of the accounts.

As the HNA is to be classed as a single asset the materiality is based upon the total value and not the constituent parts. Due to the importance of this amount discussions around the level at which the authority is considering setting it at should take place with EA at an early stage to ensure that this will not lead to problems in the audit process.

For further information please consult with your audit team.



Regulation news

Financial sustainability

The NAO published a report on 15 June which examined the financial sustainability of local authorities, given that government funding has been reduced since 2010 and a previous report by the NAO found that local authority revenue income fell by 25.2% in real terms from 2010-11 to 2015-16.

The report focuses on three areas of risk and opportunity for local authorities in the current climate: their ability to service debt costs from revenue; their ability to ensure adequate investment in local authority assets; and the government's ability to balance local autonomy and national oversight.

It concludes that although the fall in revenue income has placed pressure on local authorities, their capital programmes have not been under the same pressure. Despite prudent action by local authorities to minimise the cost of debt servicing, this accounts for a significant part of revenue spending: 9.9% on average in single tier and county councils. This in turn has an impact on the ability of local authorities to adequately maintain and invest in core assets.

The NAO offers several recommendations for the Department for Communities and Local Government: the most crucial of which is that the Department should improve its understanding of capital expenditure and resourcing issues and work with CIPFA to review the current capital framework in order to promote decision making which is more appropriately adjusted to consider the long term given expected financial pressures.

Ofsted social care annual report 2016

Her Majesty's Chief Inspector has recently published his annual report into social care, seeking to provide a clear representation of state of the system in the UK. Currently, a quarter of local services are deemed inadequate. The key message of the report is that this inadequate provision is not the result of a lack of funding, size nor deprivation of the area, rather a shortage of quality leadership within the social care sector. The report highlights examples of where excellent leadership in local authorities has resulted in the quality of care significantly improving, leaving those authorities without such leadership behind.

The report also points towards the importance of local political leadership as a key driver of success, and shows how the best-performing local authorities have been aided by political actors with an active and positive attitude towards social care. It concludes that it is the behaviour of these politicians, twinned with strong leadership from managers which gives staff more confidence, resulting in a higher overall level of care.

A further area for improvement noted is that of training of staff. The report notes the high commitment of those working in the sector, but recognises that often staff are not given the adequate training opportunities to deal with the complex and ranging problems with which they are faced.



Key questions for the audit committee

What questions should the Audit Committee be asking itself?

What actions are being taken to consider the impact of the UK's decision to leave the European Union?

Have we considered the increase in personal data collection which we will be responsible for as a result of changes to off-payroll working?

Are we prepared to undergo a review of our processes for reporting election results?

Have we considered how the increasing scope of the Governmental Internal Audit Agency could impact on local government audits in the future?

Have we considered the impact of the new highway network asset code of practice and the impact on our local authority?

Have we given consideration to the need to minimise revenue spend on debt servicing and maximise revenue spend on assets?



Find out more

EU Referendum

For more news about the EU referendum result and its implications: <http://www.ey.com/UK/en/Issues/Business-environment/EU-Referendum>

Off-Payroll working in the public sector: update

See the full EY report at: [http://www.ey.com/Publication/vwLUAssets/EY-tax-news-2016-05-31-07/\\$FILE/EY-tax-news-2016-05-31-07.pdf](http://www.ey.com/Publication/vwLUAssets/EY-tax-news-2016-05-31-07/$FILE/EY-tax-news-2016-05-31-07.pdf)

Election data

See the full action plan at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522781/UK_Open_Government_National_Action_Plan_2016-18.pdf

Government lending to local authorities

See the government announcement at: <https://www.gov.uk/government/news/government-takes-next-step-to-modernise-the-governance-of-lending-to-local-authorities>

Whole of Government Accounts (2014/15)

See the NAO's analysis of the Whole of Government Accounts at: <https://www.nao.org.uk/highlights/whole-of-government-accounts/>

Government Internal Audit Agency Corporate Plan 2016-17

Read the GIAA's Corporate Plan – visit: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/526224/GIAA_Corporate_Plan_2016-17__final_.pdf

Financial sustainability

Find the full report the NAO at: <https://www.nao.org.uk/wp-content/uploads/2016/06/Financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing.pdf>

Ofsted social care annual report 2016

Read the full report at: <https://www.gov.uk/government/publications/ofsted-social-care-annual-report-2016>

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