



Progress report

Incorporating our technical update

Brent Council

June 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 technical issues which are currently having an impact in local government and may interest the Audit Committee. If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

June 2016

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.

We completed our initial planning work and in line with auditing standards, we presented our audit plan to the Audit Committee meeting in March 2016. This highlighted the significant risks to our audit at the planning stages, the first two which are standard risks for all organisations:

- Management override of controls;
- Fraudulent revenue recognition – certain elements including s106 monies, fees etc;
- Oracle General Ledger and Purchase Ledger;
- Fair value of Property, Plant and Equipment; and
- Actuarial valuation -pension assets and liabilities.

We believe these risks remain valid and no further significant risks have been identified.

Since preparing the plan we have completed an interim audit visit. We updated our knowledge of the overall control environment and completed walk through tests to determine that the key controls we are planning on placing reliance on were operating as designed. We are meeting the Chief Executive and Chief Finance Officer on 27 June to obtain an update on how the Council is addressing the key challenges it is facing which will assist us in completing our work on your Value for Money conclusion.

We are also starting the detailed planning for our audit opinion visit that is due to start on 4 July 2016.

A summary of the timing of the deliverables we provide is included in Appendix 1 of this report.

Technical developments

Elector rights – 2015/16 changes	KPMG perspective
<p>Authorities may be aware that the <i>Accounts & Audit Regulations 2015</i> have introduced new arrangements for the exercise of electors' rights, which take effect from the 2015/16 financial statements. One of the most significant changes is that the auditor is no longer required to 'call the audit' and specify a date upon which electors can meet with the auditor and ask questions about the accounts.</p> <p>Regulation 15 requires the Responsible Financial Officer (RFO), after signing and dating the draft accounts on behalf of the Authority, to commence the period for the exercise of electors' rights. This period is limited to 30 working days, and for 2015/16 must include the first 10 working days of July.</p> <p>Authorities should also note that Regulation 9(2) is clear that the authority's meeting to consider and approve the accounts should take place after the period for the exercise of electors' rights has ended. Due to the requirement in Regulation 15 for a common inspection period during July, the inspection period this year cannot end before 14 July 2016. This means that authorities should not approve and publish their accounts before 15 July 2016.</p> <p>Electors' rights are important, and the courts have in the past been critical of those who have not ensured that adequate provision for the exercise of these rights is made.</p> <p>Auditors are mindful that they may be contacted by electors or their representatives during the 30 working day inspection period. Given the limited time available, auditors will ensure that they have adequate arrangements in place during the prescribed period for receiving and identifying promptly whether any correspondence received includes formal questions under the <i>Local Audit and Accountability Act 2014</i>, and/or objections to the accounts.</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood.</i></p>
Highways	KPMG perspective
<p>Authorities will be aware that the CIPFA/LASAAC consultation on the Draft Code of Practice on the Highways Network Asset (HNA Code) closed in April 2016.</p> <p>Following the consultation, the second in a series of Briefings on the Highways Network Asset has been made available on the CIPFA website at: http://www.cipfa.org/policy-and-guidance/local-authority-highways-network-asset.</p> <p>The Briefing covers the HNA Code consultation, the definition of the Highways Network Asset, 2015/16 reporting requirements and the Central Assurance process. Further guidance, and future briefings, on this topic are also available on this same webpage.</p>	<p><i>The Committee may wish to understand the progress their Authority has made in its plans to meet the new reporting requirements.</i></p>

Technical developments

Councillors' mileage expenses	KPMG perspective
<p>HM Revenue and Customs (HMRC) are in the process of contacting Local Authorities to commence PAYE and NIC compliance reviews focusing on the historic treatment of councillors' mileage expenses. Those authorities that are unable to demonstrate they have reported payments correctly face a tax and NIC charge, with interest and potentially penalties applying.</p> <p>The previous rules</p> <p>Up until 5 April 2016, HMRC could agree that for some councillors, home is a place of work and therefore the cost of journeys to council offices could be paid free of tax and NIC. This could have been the case where, for example, councillors were required to see constituents at home. HMRC do not accept however that working from home out of choice makes home a place of work and in these cases, any expenses reimbursed in respect of travel to council offices should have been subject to tax and NIC.</p> <p>HMRC Compliance Reviews</p> <p>Those local authorities that are unable to support their historic treatment of councillor mileage expenses face a liability to unpaid PAYE, NIC, interest and potentially penalties going back four, and possibly six years. It will be important for local authorities to review their expenses records to determine how travel expenses have been treated and the processes and rationale behind that treatment. Given that different councillors can have different working patterns it will be important to review the treatment on a case by case basis.</p> <p>The new rules</p> <p>With effect from 6 April 2016, a new exemption has been introduced for councillors' travel expenses. From this date, a councillor's journey between their home and their office will be treated as 'business travel' which means that any mileage expenses reimbursed for this journey will, up to certain limits, be free of tax and NIC (subject to their home not being more than 20 miles outside the relevant authority boundary).</p>	<p><i>The Committee may wish to seek assurances how their Authority is progressing with the new requirements.</i></p>

Technical developments

2016/17 Work Programme and Scale of Fees

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audits of the 2016/17 accounts of principal audited bodies. There are no changes to the overall work programme for 2016/17. The audit fee for the Council will remain at £199,590.

The 2016/17 work programme documents and scale fees for individual audited bodies are now available to view on the PSAA website at <http://www.psa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees>

Business rates proposal

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.

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.

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.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

Technical developments

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.

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

Appendix 1

2015/16 audit deliverables

Deliverable	Purpose	Timing
Planning		
Fee letter	Communicate indicative fee for the audit year	April 2015
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016
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
Completion		
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Providing an opinion on your Pension Fund Annual Report Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016
Audit certificate	Providing a certificate to close the audit	September 2016
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016

Appendix 1

2015/16 audit deliverables (Continued)

Deliverable	Purpose	Timing
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