



# Audit progress report

## Selby District Council

October 2018





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# 1. AUDIT PROGRESS

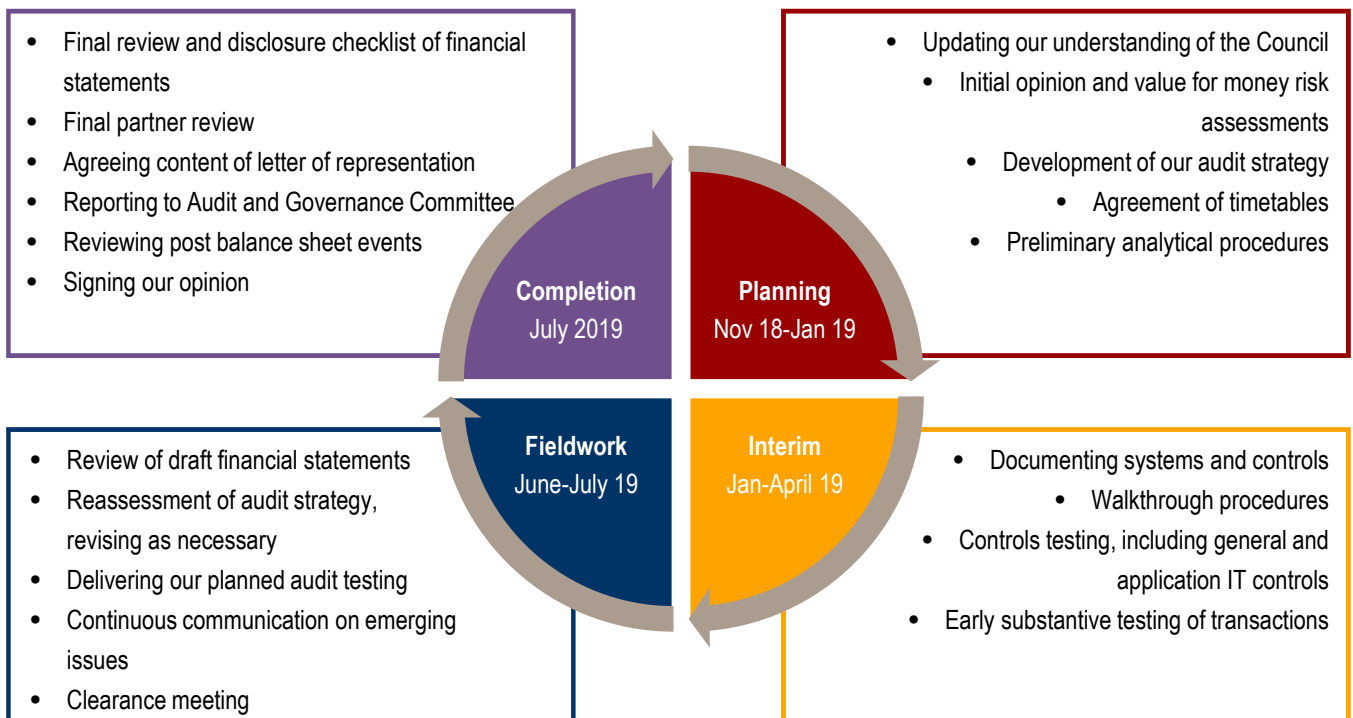
## Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditors.

## Audit progress

This is our first progress report in respect of the 2018/19 audit year. Our key audit stages are summarised in the diagram shown below. Upon completion of our initial planning and risk assessment, we will present our Audit Strategy Memorandum to the Audit and Governance Committee for discussion.

Specific work in this period includes the 2017/18 housing benefits subsidy return certification work.



## 2. NATIONAL PUBLICATIONS

	Publication/update	Key points
<b>National Audit Office (NAO)</b>		
1.	<b>Financial sustainability of local authorities 2018</b>	Continued financial pressures. Increasingly crisis-driven approach to managing local authority finances risks value for money.
2.	<b>Transformation guidance for Audit Committees</b>	Key questions for Committees to consider for transformation projects.
3.	<b>Code of Audit Practice</b>	3.-5. provide more background for new Committee Members, including the overarching Code which governs our work.
4.	<b>Roles and responsibilities of the NAO and local auditors</b>	Defines responsibilities.
5.	<b>Guidance and information for auditors</b>	Including guidance in respect of the VfM arrangements review which may be of interest to Committee Members.
<b>Public Sector Audit Appointments Ltd (PSAA)</b>		
6.	<b>Mazars Annual Regulatory and Compliance Report 2017/18</b>	Overall assessment of 'green'.
7.	<b>Oversight of audit quality, quarterly compliance reports</b>	No significant issues.
8.	<b>Local Audit Quality Forum, PSAA</b>	Inaugural meeting in April 2018; invite to all Audit Committee Chairs and Chief Finance Officers.
<b>Local Government Association (LGA)</b>		
9.	<b>Speeding up delivery: learning from councils enabling timely build-out of high quality housing</b>	Report highlights some distinctive projects and innovative practices.
10.	<b>Sector-led improvement in 2016/17</b>	Reflections by LGA which may be of interest.

1. Audit progress

2. National publications

## 2. NATIONAL PUBLICATIONS

### 1. Financial sustainability of local authorities 2018, NAO, March 2018

Since 2010, successive governments have reduced funding for local government in England as part of their efforts to reduce the fiscal deficit. Changes in funding arrangements and new pressures on demand have created both new opportunities and further pressures for the sector. Local authorities deliver a range of services. The government sets statutory duties for them to provide services, ranging from adult social care to waste collection. Local authorities also provide discretionally services according to local priorities. The Ministry of Housing, Communities & Local Government (the Department) views authorities' ability to deliver their statutory services as the defining test of their financial sustainability.

The Department has overall responsibility in central government for local authorities' funding and dictates the overall levels and distribution of funding provided to the sector, and local authorities' statutory responsibilities. Responsibility for statutory services delivered by local authorities is spread across government departments.

This report reviews developments in the sector and examines whether the Department, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

#### Key findings

##### Financial, demand and cost pressures

- Government funding for local authorities has fallen by an estimated 49.1% in real terms from 2010-11 to 2017-18.
- Alongside reductions in funding, local authorities have had to deal with growth in demand for key services, as well as absorbing other cost pressures.
- Local authorities have changed their approach to managing reductions in income, shifting away from reducing spending on services to looking for other savings and sources of income.

##### Service sustainability

- Local authorities have protected spending on service areas such as adult and children's social care where they have significant statutory responsibilities, but the amount they spend on areas that are more discretionary has fallen sharply.
- Local authorities now spend less on services, and their spending is more concentrated on social care.
- Local authorities have tried to protect front-line services in their savings plans; while this has been successful in some areas, there are signs that services have been reduced in others.

##### Financial sustainability

- Compared with the situation described in the 2014 report, the financial position of the sector has worsened markedly, particularly for authorities with social care responsibilities.
- Financial resilience varies between authorities, with some having substantially lower reserves levels than others.
- A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year.

##### The role of government in securing financial and service sustainability: assessing funding need

- The Department's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review.
- As part of its work for the 2015 Spending Review, the Department identified adult social care as a key area of pressure in the sector.

## 2. NATIONAL PUBLICATIONS

### 1. Financial sustainability of local authorities 2018, NAO, March 2018 – continued

#### The financial model for the sector

- The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities.

#### The assurance system for financial sustainability

- The Department has improved its understanding of the extent to which local authorities are at risk of financial failure.

#### The assurance system for service sustainability

- There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.
- As funding continues to tighten for local authorities and pressure from social care grows, there are risks to statutory services.

#### Report conclusions: the Department

The sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the last study. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams. The current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014. The financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The Department's performance has improved since the last study. The Department's work on the 2015 Spending Review was an improvement on its predecessors and the Department has improved its oversight of the sector's financial sustainability. However, conditions in the sector have worsened and the Department must continue to strengthen its oversight and assurance mechanisms to protect against risks to value for money from financial failure in the sector. It must also set out at the earliest opportunity a long-term financial plan for the sector that includes sufficient funding to address specific service pressures and secure the sector's future financial sustainability.

#### Report conclusions: wider government

The Department's capacity to secure the sector's financial sustainability in the context of limited resources is shaped by the priorities and agendas of other departments. The Department's improvements in understanding and oversight are necessary but not enough. Equally, because responsibility for services is dispersed across departments, each department has its own narrow view of performance within its own service responsibilities. There is no single central understanding of service delivery as a whole or of the interactions between service areas. To date, the current spending review period has been characterised by one-off and short-term funding fixes. Where these fixes come with restrictions and conditions, this poses a risk of slowly centralising decision-making. This increasingly crisis-driven approach to managing local authority finances also risks value for money.

The current trajectory for local government is towards a narrow core offer increasingly centred on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources. The implications for value for money to government from the resulting re-shaping of local government need to be considered alongside purely departmental interests. Departments need to build a consensus about the role and significance of local government as a whole in the context of the current funding climate, rather than engaging with authorities solely to deliver their individual service responsibilities.

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

## 2. NATIONAL PUBLICATIONS

### 2. Transformation guidance for Audit Committees, NAO, May 2018

Transformation is used to describe significant changes in service delivery or in day to day operations in an organisation.

The government continues to aim to make significant savings and transform services by introducing new organisational models and ways of working. However, transformation comes with risk and can be highly complicated. Evidence from the private sector suggests that 70% of transformations fail.

In many cases transformation programmes rely on new technologies and online services, and are highly ambitious and have a high risk of failure. The complexity of public service delivery and user needs can make the successful transformation of public services even more difficult. Oversight of these transformation programmes creates a major challenge for management and audit committees.

The NAO transformation guidance to Audit Committees sets out the questions to ask of management and the evidence and indicators to help audit committees to look out for at the three stages of any transformation project, as summarised below.

- At the set-up and initiation stage the key areas are: vision and strategy, and governance and architecture. The guidance addresses the evolving nature of transformation and what this implies for oversight.
- During the delivery and implementation stage the key areas are: change and implementation, and service and performance management. The guidance highlights the importance of tackling ambiguity and confusion in transformation objectives.
- Once live-running and benefits are being delivered the key areas are: people, process and technology. The guidance considers how audit committees can challenge the role of technology in supporting transformation.

<https://www.nao.org.uk/report/transformation-guidance-for-audit-committees/>

### 3. Code of Audit Practice, NAO

The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General responsible for the preparation, publication and maintenance of the Code of Audit Practice. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

The audit of a public sector organisation is wider in scope than that of a private sector body. Special accountabilities attach to the use of public money and the conduct of public business. It is not part of the auditor's responsibilities to question the merits of policy, but the auditor does have wider duties (depending upon the relevant legislation) to scrutinise and report not only upon the truth and fairness of the financial statements but on aspects of public stewardship and the use to which resources have been put. The auditor carries out this work on behalf of the public and in the public interest.

The auditor does not act as a substitute for the audited body's own responsibility for putting in place proper arrangements in support of the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

The Code includes:

- general principles;
- audit of the financial statements;
- value for money arrangements;
- reporting the results of the auditor's work;
- auditor's additional powers and duties;
- auditor's statutory responsibilities;

<https://www.nao.org.uk/code-audit-practice/>

## 2. NATIONAL PUBLICATIONS

### 4. Roles and responsibilities of the NAO and local auditors, NAO

Includes a useful summary of auditor's additional powers as well as setting out the responsibilities of auditors and local authorities.

Those responsible for the conduct of public business and for spending public money are required 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.

In discharging these responsibilities, public bodies must put in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published governance statement.

#### Responsibilities in relation to the financial statements

The audited body is responsible for preparing financial statements that meet relevant statutory, professional and any other applicable requirements.

Auditors provide an opinion on whether the audited body's financial statements:

- give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Auditors plan and perform their audit in compliance with the requirements of the Code and with relevant professional and quality control standards. The auditor's work is risk-based and proportionate and is designed to meet the auditor's statutory responsibilities,

#### Responsibilities for local authorities and NHS bodies in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives whilst safeguarding and securing value for money from the public funds at their disposal.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In carrying out this work, the auditor is not required to satisfy themselves as to whether or not the audited body has actually achieved value for money during the reporting period.

In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness.

<https://www.nao.org.uk/code-audit-practice/the-audit-framework-for-local-public-bodies/>

### 5. Guidance and information for auditors, NAO

Members may wish to note the guidance and information issued for auditors, covering sector-specific areas and providing a useful overview. This guidance is updated annually.

<https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>



## 2. NATIONAL PUBLICATIONS

### 6. Mazars Annual Regulatory and Compliance Report 2017/18, Public Sector Audit Appointments Ltd, July 2018

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2017/18 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2016/17 work.

The report sets out that:

- Mazars is meeting PSAA's standards for overall audit quality and regulatory compliance requirements;
- Mazars' combined audit quality and regulatory compliance rating was green for 2017/18;
- The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor; and
- Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2017/18 indicators scored as green and the overall weighted audit quality score of 2.55 having increased slightly from last year's 2.45.

From its assessment of all firms, the FRC has identified key issues which firms need to address in order to improve audit quality. These were the:

- challenge and scepticism of management in key areas involving judgment, such as impairment reviews, asset valuations and provisions;
- group audit team's oversight and challenge of component auditors;
- audit of company pension scheme assets and liabilities; and
- arrangements for ensuring compliance with the Ethical Standard and independence requirements.

#### Summary of PSAA annual assessments – overall combined

	BDO	EY	DT	PwC	GT	KPMG	Mazars
2018	Amber	Amber	n/a	n/a	Amber	Amber	Green
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

<https://www.psa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

### 7. Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

<https://www.psa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

## 2. NATIONAL PUBLICATIONS

### 8. Local Audit Quality Forum, Public Sector Audit Appointments Ltd, April 2018

The LAQF is intended to be a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England.

Local bodies which have opted into PSAA's national scheme will be entitled to attend Local Audit Quality Forum events free of charge (up to two delegates per body). The forum was launched in April 2018 and invites were sent to all Audit Committee Chairs and Chief Finance Officers.

Presentations from the inaugural event are available. Future events are being planned based on delegates' feedback and will be added to the PSAA website in due course.

<https://www.psaa.co.uk/local-audit-quality-forum/18-april-2018-inaugural-meeting/>

### 9. Speeding up delivery: learning from councils enabling timely build-out of high quality housing, Local Government Association, August 2018

Many local authorities across the country are working to speed up the delivery and buildout of housing. This report highlights both the potential and the limitations of the measures local authorities can take to enable timely buildout of high-quality development. There are principles that all local authorities can follow and there are actions which may work better in some areas than others, depending to some degree on market conditions and developer activity.

Key points highlighted in the report include:

- understanding the issues to delivery in the area;
- considering the use of planning conditions and their proper use;
- design codes which can be a useful tool;
- use existing powers such as s215 enforcement notices;
- use s106 legal agreements to help solve the delivery problem;
- culture change in the planning department is key; and
- partner with others to help unlock sites by offering the types of housing needed that the industry isn't able to.

<https://www.local.gov.uk/speeding-delivery-learning-councils-enabling-timely-build-out-high-quality-housing>

### 10. Sector-led improvement in 2017/18, Local Government Association July 2018

This report shows how the LGA has used DCLG grant for 2016/17 to help councils and to support improvement in the sector.

Sector-led improvement is the approach that councils and the LGA have put in place to support continuous improvement. Challenge and support from one's peers lies at the heart of sector-led improvement and underpins its success.

During the year the LGA worked with Public Sector Audit Appointments (PSAA) to develop LG Inform Value for Money (VfM) a replacement for PSAA's existing VfM Profiles. The new tool was successfully launched in November. The VfM profiles bring together data about the costs, performance and activity of local councils and fire and rescue authorities. They have been designed to help auditors, people who work for councils and fire and rescue authorities and the public understand the costs of delivering local services, and to get an overview of comparative spend and performance over time and relative to others.

## 2. NATIONAL PUBLICATIONS

### 10. Sector-led improvement in 2017/18, Local Government Association July 2018 - continued

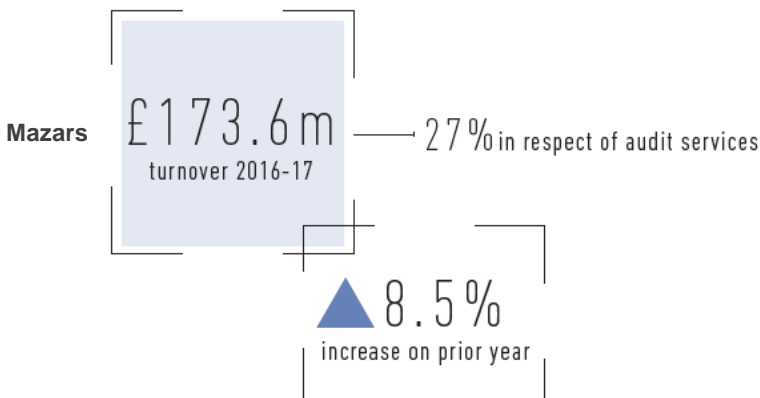
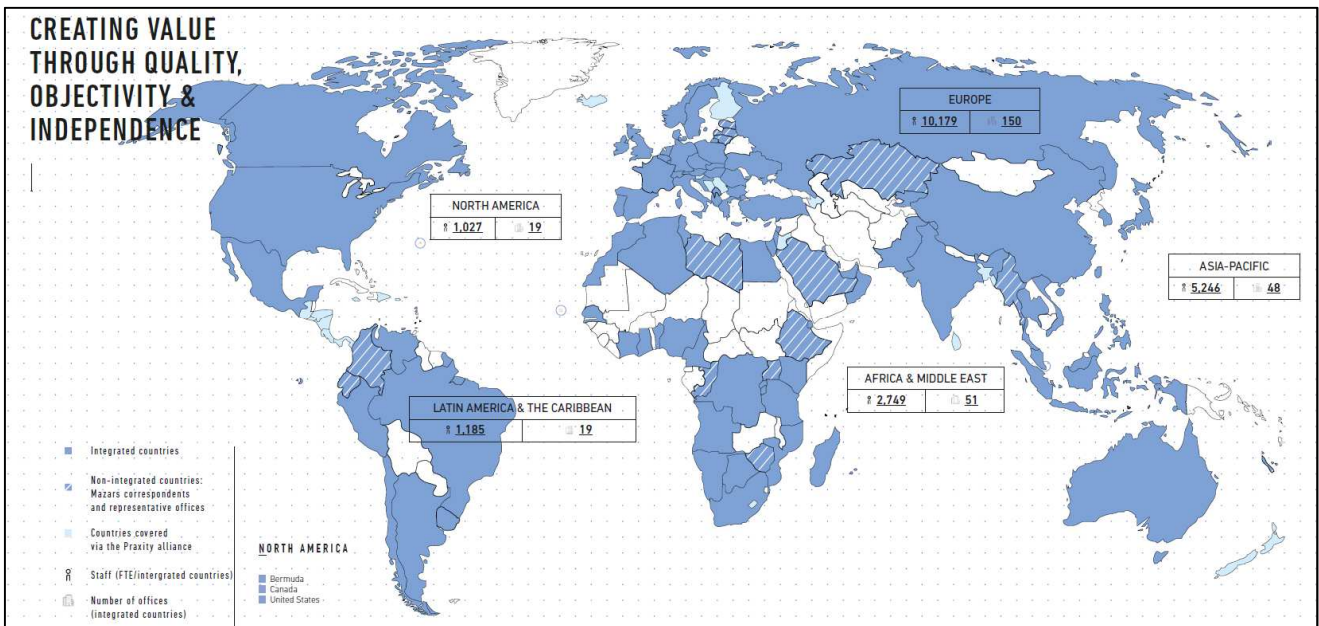
#### Sector-led improvement: some reflections

- Councils continue to demonstrate exceptional leadership of place when called upon to do so (for example, Manchester and Salisbury). Emergency response demonstrates that partnerships are still strong despite the impact cuts to funding across the local public sector can have on on-going activity.
- Whilst recognising the opportunities, the uncertainty surrounding the potential practical implications of Brexit (funding, workforce, procurement, etc.) is becoming of increasing concern as March 2019 draws ever closer.
- Devolution and local government reorganisation continue to consume significant resources in some areas. This agenda can have a negative impact on relationships and present a distraction to on-going service delivery.
- Councils continue to grapple with the increasingly more challenging financial situation as evidenced by the recent National Audit Office report into local authorities' financial viability and now overlaid by the Fair Funding Review and business rates reset. This period of ongoing financial uncertainty is arguably as damaging to councils as the cuts themselves.
- We have seen an increasing request from councils, as leadership teams change or are renewed, for top team support to help them effectively lead their organisation through turbulent and challenging times.
- There continues to be a strong interest in exploring appropriate commercial opportunities and lots of interest in the commercial skills training that we have offered. But adverse publicity around borrowing to invest has meant that some councils appear less willing to share their knowledge and experience.
- Many councils that took out layers of strategic management, or whole functions such as policy development, are now struggling with capacity. A lack of corporate capacity in particular impacts councils' ability to horizon scan and think through how they need to change and adapt.
- Councils have devoted significant time and effort seeking to be equal partners in sustainability and transformation plans which haven't always led to outcomes, and there is frustration in the sector about this and a continuing concern at the delay in moving to new ways of working.
- Demand pressures particularly on children's and adult social care have become much more noticeable. An increasing number of councils are also reporting budget pressures on their temporary accommodation budgets.
- Homelessness has become a bigger issue for more councils this year and the number of homeless families and individuals placed in temporary accommodation has increased significantly.
- Housing growth is still a big issue. Councils are continuing to explore new vehicles to build homes.

# MAZARS AT A GLANCE

## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



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