

Audit and Governance Committee Progress Report – November 2019

North West Leicestershire District Council

Year ending 31 March 2020





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Audit Progress

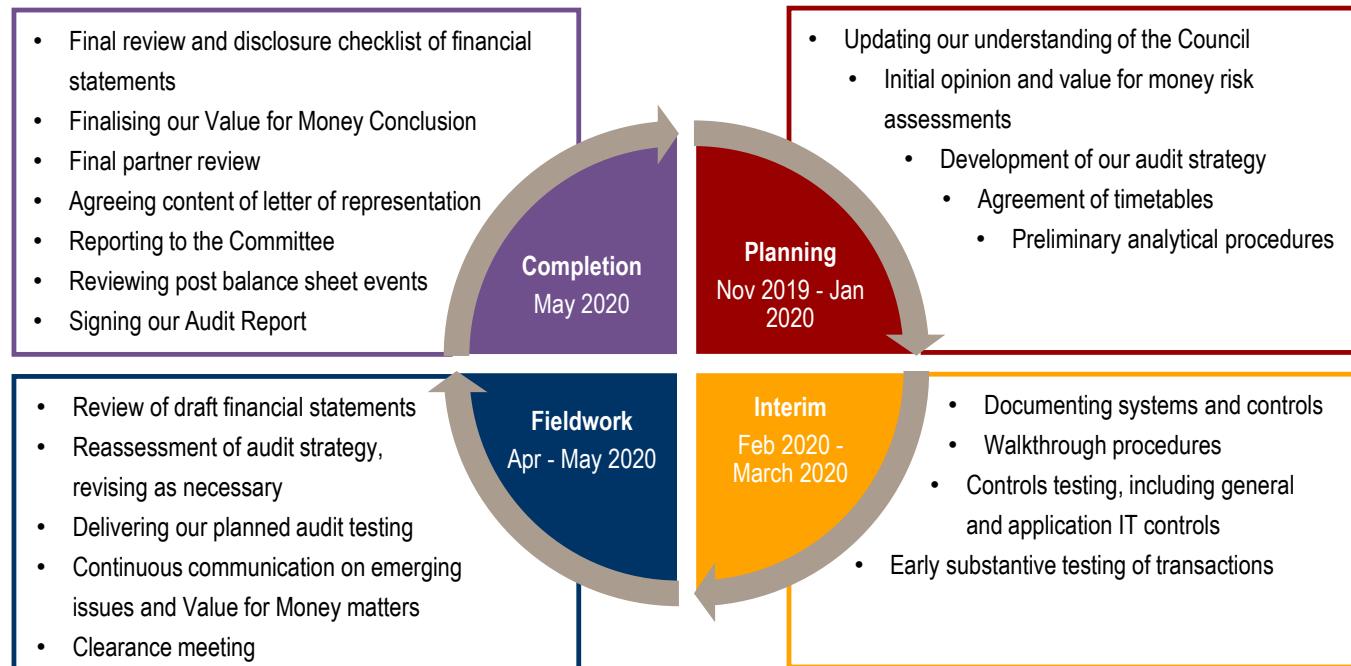
Appendix A – Technical Update

1. AUDIT PROGRESS

This is our first progress report in respect of the 2019/20 audit year. The report includes updates for the Committee on the progress on our audit of the Council and other non audit work, and our usual summary of recent relevant technical and sector publications.

Audit of the accounts and Value for Money Conclusion

We are holding our normal planning meetings with senior managers to inform our risk assessments and to update our understanding of the current priorities and challenges the Council faces. Our provisional timetable of work is set out in the diagram below. On completion of the planning and risk assessment work we will bring our Audit Strategy Memorandum to the Audit and Governance Committee for consideration at its March 2020 meeting. Our risk assessment process will continue throughout the year.



Based on our planning work to date we do not expect the profile of the accounts audit risks to be significantly different to that reported in our previous year's Audit Strategy Memorandum, with the audit risks and areas of management judgement likely to again include:

- Management override of controls
- Valuation of land and buildings
- Valuation of pension liabilities

We expect our Value for Money risk assessment to again be focused on the Council's arrangements for sustainable resource deployment and its medium term budget pressures, as well as the pro.

At this stage, there are no matters arising from our planning work to date which we are required to report to the Committee.

Non Audit Work

We were engaged earlier in the year to carry out the required audit procedures on the Council's Housing Benefit Subsidy Claim 2018/19. This work is now complete and we issued the audit report, summarising the findings from the required testing, to the Department for Work and Pensions on 21 November 2019.

We have also been engaged to carry out the Reporting Accountant's report work on the Council's 2018/19 Pooling of Housing Capital Receipts Return. The reporting deadline is 7 February 2020. The work is in progress and there are no matters arising that we need to report to the Committee at this stage.

2. NATIONAL PUBLICATIONS

This section includes, for the Committee's information, summaries of recent technical and other sector publications which we believe are relevant to your broader responsibilities. The reports covered in this appendix, and the key messages, are:

| Publication/update | Key points |
|--|--|
| National Audit Office (NAO) | |
| 1. Guidance for Audit Committees on 'Cloud' services | Outlining cloud services and their use in government, this guide suggests questions to ask at planning, implementation and management stages. |
| 2. Local Enterprise Partnerships: an update on progress | This report follows up the NAO's 2016 report and provides their latest assessment of the current arrangements. |
| 3. Support for children with special educational needs and disabilities in England | While some children with special educational needs and disabilities (SEND) are receiving high-quality support, many others are not getting the help they should. Local authorities are coming under growing financial pressure as the demand for supporting school pupils with the greatest needs rises. |
| 4. Consultation – new Code of Audit Practice from 2020 | The second stage of consultation is to take place in the second half of 2019. New Code to take effect from 2020/21. |
| 5. Exiting the EU: supplying the health and social care sectors | This report examines the progress made by DHSC – working with other government departments, NHS and social care providers, and with private sector suppliers – in implementing the Continuity of Supply Programme. It sets out DHSC's plan and records the progress made. |
| Chartered Institute of Public Finance and Accountancy (CIPFA) | |
| 6. Local Government Chief Finance Officers losing confidence in ability to deliver services | CIPFA's survey found that Local authority CFOs were less confident in their organisation's future financial positions than they were in 2018/19. |
| 7. CIPFA launches new Financial Management Code | The new Code is the first from the Institute in almost 15 years, and brings together many areas of local government financial management into one place. |
| 8. Local Authority Property Investments | Guidance issued by the CIPFA outlines what is expected of local authorities that are pursuing investments in property. |
| 9. Council tax fraud represents 78% of local government fraud | New research released by CIPFA shows that local authorities have detected 22% more cases of council tax fraud compared to last year. |

1. Audit progress

2. National publications

2. NATIONAL PUBLICATIONS

| Publication/update | Key points |
|---|--|
| Local Government Association (LGA) | |
| 10. Outcomes from the Counter Fraud Fund | This report sets out the outcomes from the Counter Fraud Fund (CFF), established by the Ministry for Housing, Communities and Local Government (MHCLG), for which councils were able to bid in the autumn of 2014. |
| 11. A Councillor's guide to Digital Connectivity | Explores the main issues and challenges facing local areas and guidance from experienced councillors who have already undertaken work to get their communities better connected. It also provides a brief overview of Government policy and a glossary of widely used terms. |
| 12. A Councillor's guide to Procurement | Includes a toolkit that enables councils to set their own objectives and measure their own progress. |
| Ministry of Housing, Communities and Local Government | |
| 13. Review of local authority financial reporting and external audit | Announcement of a wide ranging review of financial reporting and external audit in the sector |
| Public Sector Audit Appointments Ltd | |
| 14 Local Audit Quality Forum | Slides from the latest event and notification of the next meeting 25 November 2019 |
| 15 Local Government audit opinions issued by 31 July 2019 | Press release relating to the increase in delays in issuing audit opinions |

1. Audit progress

2. National publications

2. NATIONAL PUBLICATIONS

1. Guidance for Audit Committees on Cloud based services, April 2019

Outlining cloud services and their use in government, this guide suggests questions to ask at planning, implementation and management stages.

Public and private sector organisations are increasingly adopting cloud services with the aims of reducing costs, increasing efficiency and transforming their operations. Government policy supports this move but recognises that accessing systems through the internet can bring new contracting models and new challenges. Some organisations may lack the capacity or expertise to select the right product for their needs, implement it securely and manage it effectively.

The guidance provides an overview of cloud services and outlines government policy on their use. It then sets out specific questions for audit committees to consider asking when engaging with their management at three stages:

Assessment of cloud services – looking at cloud services as part of organisational and digital strategies; the business case process; and due diligence.

Implementation of cloud services – considering system configuration; data migration; and service risk and security.

Management of cloud services – covering operational considerations; the need for assurance from third parties; and the capability needed to manage live running.

The guidance points to and complements detailed cloud guidance available elsewhere.

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

2. Local Enterprise Partnerships: an update on progress, May 2019

This report sets out:

- changes to the role and remit of LEPs since we last reported in 2016 (Part One);
- the Department's and LEPs' progress with strengthening governance, assurance and transparency (Part Two); and
- funding spent through LEPs to date and future funding arrangements (Part Three).

With the significant amount of public funding now delivered through LEPs and the recent failure of the GCGP LEP, there is a clear rationale for more demonstrable good governance in LEPs and better oversight by the Department. We recognise the inherent tension the Department faces in developing a system of governance over a delivery model based on the devolution of funding and responsibilities to ad hoc, business-led partnerships. The Department has responded by implementing the recommendations of the Ney Review and some of those made by the Committee. While the assurance framework is stronger, backed up by checks on compliance, it is not proven yet whether these measures will be effective in detecting and responding to governance failures over significant sums of public money.

The Department's accounting officer is accountable for the Local Growth Fund delivered through LEPs. However, the Department has made no effort to evaluate the value for money of nearly £12 billion in public funding, nor does it have robust plans to do so. The Department needs a grip on how effectively these funds are used. It needs to act if it wants to have any hope of learning the lessons of what works locally for future interventions in local growth, including the new UK Shared Prosperity Fund.

<https://www.nao.org.uk/report/local-enterprise-partnerships-an-update>

2. NATIONAL PUBLICATIONS

3. Support for pupils with special educational needs and disabilities in England, September 2019

While some children with special educational needs and disabilities (SEND) are receiving high-quality support, many others are not getting the help they should, according to the National Audit Office (NAO). Local authorities are coming under growing financial pressure as the demand for supporting school pupils with the greatest needs rises.

In its report, the NAO estimates that the Department for Education (DfE) gave local authorities £9.4 billion to spend on support for pupils with SEND in 2018-19 – 24.0% of their total core grant for schools. While the DfE has increased school funding, the number of pupils identified as having the greatest needs – those in special schools and with education, health and care plans (EHC plans)¹ in mainstream schools – rose by 10.0% between 2013-14 and 2017-18. Over the same period, funding per pupil dropped by 2.6% in real terms for those with high needs, and also decreased for those without EHC plans.

Local authorities are increasingly overspending their budgets for children with high needs. In 2017-18, 81.3% of councils overspent compared with 47.3% in 2013-14. This is primarily driven by a 20% increase in the number of pupils attending special schools instead of mainstream education. Local authorities have also sharply increased the amount they spend on independent special schools – by 32.4% in real terms between 2013-14 and 2017-18. In some cases, this is due to a lack of appropriate places at state special schools.

In response to overspending against these budgets, local authorities are transferring money from their budgets for mainstream schools to support pupils with high needs. They are also using up their ringfenced school reserves, which have dropped by 86.5% in the last four years. This is not a sustainable approach.

Stakeholders in the sector have raised concerns that the demand for special school places is growing because the system incentivises mainstream primary and secondary schools to be less inclusive. Mainstream schools are expected to cover the first £6,000 of support for a child with SEND from existing budgets and cost pressures can make them reluctant to admit or keep pupils with SEND. Another barrier is that schools with high numbers of children with SEND may also appear to perform less well against performance metrics.

Pupils with SEND, particularly those without EHC plans, are more likely to be permanently excluded from school than those without SEND. Pupils with SEND accounted for 44.9% of permanent exclusions in 2017/18. Evidence also suggests that pupils with SEND are more likely to experience off-rolling – where schools encourage parents to remove a child primarily for the school's benefit – than other pupils.

While Ofsted has consistently rated over 90% of state special schools as good or outstanding, most pupils with SEND attend mainstream schools. Short Ofsted inspections of 'good' mainstream schools are not designed to routinely comment on SEND provision, so provide limited assurance of its quality.

The NAO has also raised questions about the consistency of support across the country as there are substantial unexplained variations between different local areas. Joint Ofsted and Care Quality Commission inspections indicate that many local areas are not supporting children as effectively as they should be.

The NAO recommends that the DfE should assess how much it would cost to provide the system for supporting pupils with SEND created by the 2014 reforms and use this to determine whether it is affordable. The Department needs better measures of the effectiveness of SEND support in preparing pupils for their adult lives and should make changes to funding and accountability arrangements to encourage and support mainstream schools to be more inclusive. It should also investigate the reasons for local variations to increase confidence in the fairness of the system, identify good practice and promote improvement.

Since the report was completed, on Friday 6 September, the DfE announced a review of support for pupils with SEND.

<https://www.nao.org.uk/press-release/support-for-pupils-with-special-educational-needs-and-disabilities-in-england/>

2. NATIONAL PUBLICATIONS

4. Consultation – new Code of Audit Practice from 2020, NAO, May 2019

The NAO is now consulting on the draft text of the new Code of Audit Practice. The consultation is open to everyone and information about how to respond can be found in the consultation document. The consultation will close on 22 November 2019.

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come into force no later than 1 April 2020.

NAO is now consulting on the draft text of the new Code and it has published a consultation document, which highlights the key changes to each chapter of the draft Code. The consultation document and a copy of the draft Code can be found at the links below.

The consultation is open until 22 November 2019.

NAO plans to finalise the Code by the end of 2019, ready to be laid in Parliament early in 2020. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

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

5. Exiting the EU: supplying the health and social care sectors, September 2019

Given the pace of DHSC's work, the report does not reach a final conclusion on the value of money of DHSC's response. Nevertheless, the NAO considers it important to record now where DHSC has got to as it takes forward these preparations and to set out the remaining areas of risk.

The report finds that DHSC has done a great deal of work to prepare for a no-deal exit. It identified several high-risk areas and took steps to fill gaps in the information it held, for example on the reliance of supplies on the short Channel crossings. It worked effectively with stakeholders in the medicines industry to understand the challenges they face in the event of a no-deal exit and to address them, for example by providing additional warehouse capacity. However, there remains a significant amount to do before 31 October, in particular to ensure that:

- government has a full picture of preparedness across the supplier base;
- sufficient cross-government freight capacity is in place; and
- social care providers such as nursing homes are fully prepared.

The report concludes that in the event of a no-deal exit, DHSC would be working in a highly uncertain environment and operating all the elements of its plan would be a hugely demanding task.

<https://www.nao.org.uk/report/exiting-the-eu-supplying-the-health-and-social-care-sectors/>

2. NATIONAL PUBLICATIONS

6. Local Government Chief Finance Officers losing confidence in ability to deliver services, July 2019

Local authority CFOs are less confident in their future financial positions than they were in 2018/19 reveals new research from the Chartered Institute of Public Finance and Accountancy (CIPFA) today. Seventy per cent of respondents to CIPFA's CFO Confidence Survey reported they were either slightly less or much less confident in their financial position for 2020/21 than they were in 2018/19.

Sixty eight per cent said they were either slightly less or much less confident in their ability to deliver services for the same time period.

The majority of respondents (62%) reported equal confidence in their financial position for 2019/20 as they had in 2018/19.

The survey also showed that the area of greatest pressure for top tier authorities remains children's social care, with the number of authorities rating it the most high pressure area rising by six percentage points since the last survey in 2017.

Adults' social care was the area of second highest pressure. The greatest pressures for district authorities were housing, cultural services, and environmental services.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/local-government-chief-finance-officers-losing-confidence-in-ability-to-deliver-services>

7. CIPFA launches new Financial Management Code, October 2019

CIPFA has launched its Financial Management (FM) Code, to drive improvement in financial management for councils across the United Kingdom.

The new Code is the first from the Institute in almost 15 years, and brings together many areas of local government financial management into one place. It follows extensive engagement with senior leaders in public finance from across the country.

The FM Code is based on a set of standards and principles, including organisational leadership, transparency, assurance and sustainability. Its aim is to place financial management at the heart of policy and decision making in local government.

Although the FM Code comes into effect from April 2020, in recognition of the pressures facing local authorities, 2021/22 will be the first full compliance year for the Code. This allows authorities a shadow year to work towards full implementation.

CIPFA will be providing support and guidance over the next 12 months to aid this process.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-new-financial-management-code>

2. NATIONAL PUBLICATIONS

8. CIPFA provides clarity on local authority property investments, November 2019

Guidance issued by the CIPFA outlines what is expected of local authorities that are pursuing investments in property. In recent years, local authorities have increasingly looked to commercial property investments, including hotels, farms and retail properties, to supplement the revenue they are able to generate. However, CIPFA's guidance makes clear that authorities must not borrow more than or in advance of their needs purely in the interest of profit. The guidance reflects circumstances where there is no specific or projected need to borrow, but an opportunity has been identified to make profit greater than the authority's cost of borrowing.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-provides-clarity-on-local-authority-property-investments>

9. Council tax fraud represents 78% of local government fraud, November 2019

New research released by CIPFA shows that local authorities have detected 22% more cases of council tax fraud compared to last year. The 2019 CIPFA Fraud and Corruption Tracker (CFaCT) reveals that UK local authorities identified and/or prevented 55,855 cases of council tax fraud in 2018/19, down from 57,894 cases in 2017/18. Valued at £30.6m, this included 44,051 cases of Single Person Discount (SPD) fraud and 8,973 cases of Council Tax Reduction (CTR) fraud. However, this year's report also showed that the estimated loss to councils from business rate fraud decreased to £8m from £10m the previous year. Overall, business rate fraud represented only 2% of the total number of fraud cases detected or prevented in 2018/19.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/council-tax-fraud-represents-78-of-local-government-fraud>

2. NATIONAL PUBLICATIONS

10. Outcomes from the Counter Fraud Fund, July 2019

The Local Government Association (LGA) worked with the Chartered Institute of Public Finance and Accountancy (CIPFA) to capture the learning from the 60 successful bids from 52 lead authorities in terms of both how the fund was developed and managed at the local level together with the links with other relevant agencies (including MHCLG); the impact of the programme to date; and any lessons and insights that could be gained from participating councils that could feed into future activity in this area.

This report brings together the conclusions from the analysis provided by the CIPFA survey and provides an overview of activity, highlighting themes that run within or across projects as a whole, an indication of the extent of the savings accruing from activity made possible through the counter fraud fund and losses/costs avoided or recovered, together with some case studies. It also summarises the key findings from four projects looking specifically at the potential threat from serious and organised crime to publicly procured services in local government, sponsored by the Home Office.

<https://www.local.gov.uk/outcomes-counter-fraud-fund>

11. A Councillor's guide to Digital Connectivity , October 2019

This guide is structured to provide councillors with key information on digital connectivity. It explores the main issues and challenges facing our local areas and includes hints, tips and case studies from experienced councillors who have already undertaken work to get their communities better connected. It also provides a brief overview of Government policy and a glossary of widely used terms. Finally, it sets out the vital role councillors can play in this area by:

- educating residents, voluntary and third-sector groups and businesses on the benefits of faster, more reliable connectivity
- bringing communities together to advocate for improved digital connectivity by applying for grants or aggregating their demand to persuade telecommunications providers to build the necessary infrastructure on their road
- helping residents consider where it is most appropriate to build new digital infrastructure, such as a phone mast, to improve residents' and businesses' connectivity whilst conserving local landscapes
- working in partnership with council portfolio holders, officers and other local stakeholders to consider the role your council can play in helping to improve communities' digital connectivity.

<https://www.local.gov.uk/councillors-guide-digital-connectivity-0>

12. A Councillor's guide to Procurement, October 2019

The LGA worked closely with councils to develop the National Procurement Strategy 2018 and a toolkit that enables councils to set their own objectives and measure their own progress. The National Procurement Strategy puts the councillor role front and centre and this guide has been produced specifically with councillors in mind. It looks at the roles councillor's play – both executive members and those engaged in overview and scrutiny work – and provides hints and tips on how to get the best out of procurement and contract management. Just as in the national strategy the focus is on delivering the council's objectives. Councillors do not need to be procurement professionals. But they do need to be able to ask the right questions and that is where this guide comes in.

<https://www.local.gov.uk/councillors-guide-procurement-2019-edition>

2. NATIONAL PUBLICATIONS

13. Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond is seeking views on the quality of local authority financial reporting and external audit. This consultation closes at 5pm on 20 December 2019.

This call for views invites views, information and evidence on, in particular:

- definitions of audit and its users
- the expectation gap
- audit and wider assurance
- the governance framework
- audit product and quality
- auditor reporting
- how local authorities respond to audit findings
- the financial reporting framework

The call for views is aimed at anyone with a direct or indirect interest in local authority audit and financial reporting

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

14. Local audit quality forum June 2019 slides

The local audit quality forum meeting place in which all of the parties which share a responsibility for audit quality can share experiences and good practice. The June 2019 slides are now available. The forum addressed 'practical help for Audit Committees', including the following:

- what should the Audit Committee look for in the financial statements?
- what is it like being an Audit Committee Chair;
- support for Audit Committees from CIPFA;
- how can Internal Audit help the Audit Committee to deliver its remit;
- support from the Local Government Association for Audit Committees; and
- new Code of Audit Practice consultation.

The next Forum meeting is in November 2019. Local bodies, including Lincolnshire County Council, who have opted into PSAA's national scheme are entitled to attend LAQF events free of charge (up to two delegates per body).

<https://www.psaa.co.uk/wp-content/uploads/2019/06/10-07-19-LAQF-Presentation-Slides.pdf>

15. Local Government audit opinions issued by 31 July 2019, August 2019

PSAA issued a press release after the end of the 2018/19 audit deadline to highlight the increase in the number of audit opinions that were not available by 31 July 2019. Reporting an increase in the number of opinions not available, the press release highlights the factors that have driven the increase in delays.

<https://www.psaa.co.uk/2019/08/news-release-local-government-audit-opinions-delivered-by-31-july-2019/>

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