



Technical update

Agenda Item No. **7.1**

Incorporating the External Audit Progress Report

Humberside Fire Authority

November 2017

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Page

3

External audit progress report 2016/17

KPMG resources

5

Technical developments

8

Appendices

1. 2016/17 audit deliverables

20

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact

 Medium impact

 Low impact

 For information



External audit progress report

External audit progress report 2016/17

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors. At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	<p>We issued our 2016/17 external audit plan in January 2017. The plan outlined how we would deliver our financial statements audit work for the Authority. Our overall audit approach was unchanged from last year. Our work was carried out in four stages and the timings for these, and specifically our on site work, were agreed with the Finance staff.</p> <p>There were no issues we wished to draw to your attention from the interim visit.</p> <p>We reported the findings from our work on your financial statements to both the Governance Audit and Scrutiny Committee and Fire Authority in July 2017 in our ISA 260 report and we issued an unqualified opinion in July 2017.</p>
Value for Money	<p>Our external audit plan also sets out our approach to value for money (VFM) work for 2016/17.</p> <p>We completed our initial risk assessment for the VFM conclusion work assessing the arrangements that the Authority has in place, and did not identify any significant risks. We are revisited our risk assessment as part of our ongoing work and have no further changes to report to the Committee.</p> <p>Our final conclusion were reported in the ISA 260 report in July 2017. We gave an unqualified opinion.</p>
Certification of claims and returns	<p>Not required at Humberside Fire Authority</p>
Other work	<p>We have not carried out any other work at the Authority this year.</p>



KPMG RESOURCES

Ready for General Data Protection Regulations (GDPR)?

The biggest change to rules governing data protection for more than 20 years comes into effect in May 2018, carrying fines of up to 4% of revenue or €20m for organisations that do not comply, whichever is higher. The European Privacy regulators have made it very clear they intend to use their new powers.

Managing data requires a careful strategy to ensure that it's reliable and that customers understand what you are doing with their personal information and where required that you have gained their consent. This will ensure the insights it delivers are actionable, and reduces the risk that organisations won't be perceived as intrusive as customers see more tailored services.

Based on KPMG's extensive experience in working with organisations across sectors and geographies on privacy matters, we recommend the following five step approach. This could be used specifically for the purposes of the GDPR or as a broader privacy strategy approach.

- 1) Define your privacy strategy** – Defining your privacy strategy is the first step. Without it, you can't have a consistent and coherent approach. The strategy must be defined and articulated, and then presented to senior leadership for their endorsement. You need to get it on the decision maker's agenda fast. Our recent experience has shown that most organisations will need to put investment into a privacy improvement programme.
- 2) Where are you now?** – In order to establish the size of the task ahead and what specific areas need addressing, you need to understand your organisation's current maturity. This is not a tick box exercise but a pragmatic, focused process to really understand the GDPR privacy risk exposures that exist across your organisation.
- 3) Take a pragmatic approach** – You need to build a realistic plan which will help you manage your risk to an appropriate level, in line with your overall business strategy. This does not necessarily mean taking a leading position in every single respect – but a clear view of what success looks like for you.
- 4) Coordinate and deliver** – Focusing on areas of greatest risk, you need to ensure that controls are embedded as part of day to day business operations. This will require coordination across the organisation. Make sure you have the right blend of input from legal, IT, HR and other functions and enough resources. Don't underestimate the level of effort – personal information is everywhere in your organisation.
- 5) Embed into business as usual** – Complying with the GDPR is about defining, implementing and then sustaining compliant processes. Post 2018 you will be required to demonstrate, on an ongoing basis, how you collect, use, retain, disclose and destroy personal information in line with the GDPR requirements. This impacts everything you do relating to personal information and is therefore a significant transformational activity for your organisation going forwards.

More details, including in relation to the five step approach set out above, can be found at: www.kpmg.com/uk/privacyservices

Faster accounts close for Local Government

In February 2015 a new closedown timetable for Councils, Fire Authorities, Police Bodies and National Park Authorities was set out reducing both the time to prepare the accounts and complete the audit. As in prior years The Regulations retain the requirement for the draft accounts to be approved by the Responsible Finance Officer and sets out the period for the exercise of public rights.

The Benefits

The Government has been keen to improve transparency of local government financial reporting. Historically there has been a disconnect between budget monitoring carried out during the year and the annual accounts closedown process producing a set of statements that bear little resemblance to the reported budget position.

The Risks

Reducing the time taken to publish the financial statements presents a number of risks to authorities which will need to be addressed in order to facilitate successful faster closure. The Regulations set out the duties of the Responsible Financial Officer to have proper arrangements in place. potential risks include:

- failure to deliver the draft and final statements within the deadlines;
- incomplete and inaccurate financial statements (e.g. due to risk of error from increased estimation);
- reputational damage; and
- diversion of resources from other key finance activities –leading to issues in other areas.

As well as compliance with the Regulations, failure would lead to potential qualification of the VFM opinion from external auditors and critical comments from national stakeholders.

Lessons from bodies already closing early

Experience elsewhere suggests there needs to be an early recognition of the additional work needed to develop the faster plan. Many Authorities have developed a project group of key senior finance officers and central and service finance office to develop the approach.

Resourcing is always recognised as an issue, but in the development of a plan, authorities need to ensure that accounts production is appropriately shared amongst staff resources, for instance, there is experience at smaller authorities that this is allocated to one person.

Fundamental to the development plan is ensuring that all contributors, including those outside of finance, are aware of the change and they are built into the project.

KPMG have produced a thought leadership document that covers the above in more detail. This is available from your audit team.



Technical developments

Local government finance settlement 2017-18

Level of impact: ● (For information)	KPMG Perspective
<p>The Department for Communities and Local Government (DCLG) has published the final local government finance settlement for 2017/18. The settlement reflects comments received by DCLG in response to its consultation, with key features including:</p> <ul style="list-style-type: none"> — confirmation of spending allocations for those authorities which have taken up the government’s four-year funding deal first set out in 2015; — details of council tax referendum thresholds, including the additional social care precept, and a 2% principle for all shire district councils, and for police and crime commissioners in the lowest quartile; and — the legislative framework for business rates reform underpinning the move towards 100% business rates retention. <p>For further information please see www.gov.uk/government/collections/final-local-government-finance-settlement-england-2017-to-2018</p>	<p>Committee members may want to be updated as to how this will impact on the medium term financial plans.</p>

Technical developments

Public Sector Internal Audit Standards (PSIAS)

Level of impact: ● (For Action)		KPMG Perspective
<p>The revised Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2017 and are included on the IASAB website (a CIPFA microsite – link below). These were agreed by the Relevant Internal Audit Standard Setters (RIASS) who are CIPFA in respect of local government bodies across the UK.</p> <p>The standards apply to local authorities and other local government bodies, including police and fire bodies, as well as government departments (including executive agencies and non-departmental public bodies) and Clinical Commissioning Groups and NHS trusts.</p> <p>The standards are based on the mandatory elements of the International Professional Practices Framework (IPPF) as follows:</p> <ul style="list-style-type: none"> — Definition of internal auditing. — Core principles for the professional practice of internal auditing. — Code of ethics. — International standards for the professional practice of internal auditing (which comprise statements, interpretations and a glossary). — Plus the mission of internal auditing. <p>In addition, the PSIAS include a small number of the UK public sector requirements, which indicate how internal auditors must implement the IPPF in the UK public sector including:</p> <ul style="list-style-type: none"> — conforming to the Code of Ethics. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation; — having regard to the Committee on Standards of Public Life's Seven Principles of Public Life; and — the requirement for the chief audit executive to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme. <p>The 2017 PSIAB standards can be found at www.iasab.org/standards</p>		<p>Committee members may wish to request assurance that the Internal Audit standards will be achieved.</p>

Fire and Rescue Authorities affected by overclaimed top-up grant funding

Level of impact: ● (Low)		KPMG perspective
<p>In 2006, the <i>Firefighters' Compensation Scheme (England) Order</i> came into force. This changed the way injury benefits were funded and accounted for in respect of firefighters who had retired due to injury. In 2014, DCLG identified that some authorities had incorrectly charged injury benefits to the pension fund account, and that the some authorities may have overclaimed top-up grant as a result. We are aware that a number of bodies made provisions in respect of the potential overclaim at this time.</p> <p>Responsibility for Fire and Rescue transferred to the Home Office in 2016, and the department has now concluded that overclaimed top-up grant funding during the period 2006/07 to 2012/13 should be re-paid. We understand that the Home Office informed affected bodies of this decision before 31 March 2017.</p> <p>The Home Office has identified that the affected bodies are:</p> <ul style="list-style-type: none"> — Avon Fire and Rescue Authority — Bedfordshire Fire and Rescue Service — Buckinghamshire Fire and Rescue Service — Cheshire Fire and Rescue Service — Cleveland Fire Authority — Cumbria Fire and Rescue Service — Essex Fire Authority — Greater Manchester Fire and Rescue Service — Hampshire Fire and Rescue Authority — Isle of Wight Fire and Rescue Service — Kent Fire and Rescue Service — Leicestershire Fire and Rescue Service — Lincolnshire Fire and Rescue Authority — Royal Berkshire Fire and Rescue Service — Staffordshire Fire and Rescue Service — Suffolk Fire and Rescue Service — Surrey Fire and Rescue Authority — Tyne and Wear Fire and Rescue Service — Warwickshire Fire and Rescue Service — West Sussex Fire and Rescue Service — Dorset & Wiltshire Fire and Rescue Service 	<p>The committee needs to gain assurance that the Authority have accounted for the top-up grants funding as required.</p>	

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Local authority accounts: A guide to your rights

Level of impact: ● (For information)

The NAO publishes a guide aimed at helping local people understand their rights to ask questions, inspect and object to local authority accounts. The updated publication, *Local authority accounts: A guide to your rights*, is available on the NAO website (at the link below).

The main changes to the guide are as follows:

- A change of title from *Council Accounts: A guide to your rights to Local authority accounts: A guide to your rights*, to reflect the fact that public rights apply to a wider selection of authorities than ‘councils’.
- The guide contains a new Annex, which addresses issues specific to smaller authorities, such as exemption from limited assurance review, which comes into force from 2017-18 onwards.
- The guide clarifies that, while helpful to do so, it is not necessary for electors to identify an item of account in order for the objection to be eligible, particularly where they are raising issues in respect of governance, and/or are asking the auditor to issue a report in the public interest. Audit committee members are encouraged to read the guide, and to direct members of the public to in correspondence where this may be helpful.

The guide can be found at www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/

Publication of 2017/18 work programme and scale of fees

Level of impact: ● (For information)

Following consultation, Public Sector Audit Appointments Ltd (PSAA) has published the work programme and scale fees for the audit of the 2017/18 accounts of principal local government and police bodies.

There are no changes to the overall work programme for 2017/18. Scale fees will therefore also remain at the same level as the scale fees applicable for 2016/17. This retains the significant fee reductions of 55 per cent secured since 2012/13, and continues to protect audited bodies from cost of living increases with an overall real terms saving equivalent to 61 per cent.

The audit of the 2017/18 accounts is the final year for the current audit contracts, which were extended for one year under transitional arrangements made by the Department for Communities and Local Government. For audits of the accounts from 2018/19, the provisions of *the Local Audit and Accountability Act 2014* in relation to local appointment of auditors will apply. The Secretary of State for Communities and Local Government has specified PSAA as the appointing person for principal local government and police bodies, and, in accordance with the Act, PSAA will therefore appoint auditors and set scale audit fees for bodies that have opted into its national scheme.

During the course of 2017/18 PSAA plans to make a distribution of surplus funds to principal local government and police bodies. The distribution is made possible by the transfer of an element of the Audit Commission's retained earnings prior to its closure in March 2015 and by PSAA making further efficiencies since its establishment.

The work that auditors will carry out on the 2017/18 accounts will be completed based on the requirements set out in the *Local Audit and Accountability Act 2014* and under the *Code of Audit Practice* published by the National Audit Office.

The 2017/18 work programme documents and scale fees for individual audited bodies are now available on the PSAA website at www.psa.gov.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/

Local Audit (public access to Documents) Act 2017

Level of impact: ● (For information)

The *Local Audit (Public Access to Documents) Act 2017* (the Act) received royal assent on 27 April 2017. The Act extends rights of inspection under section 26 of the *Local Audit and Accountability Act 2014* to include journalists and citizen journalists.

The Act defines a journalist as ‘any person who produces for publication journalistic material (whether paid to do so or otherwise).’ Committee members will wish to note that while the Act extends rights of inspection, there are no changes in respect of auditors’ additional powers and duties; the rights under the *Local Audit and Accountability Act 2014* to ask the auditor questions about the accounts, and to make an objection at audit, continue to be restricted to local government electors only.

CIPFA consultations

Level of impact: ● (For information)

Members will wish to be aware that CIPFA/LASAAC are consulting on the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

The consultation will close on 6 October 2017 with responses direct to CIPFA. The changes being consulted on are:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- narrow scope amendments to International Financial Reporting Standards;
- legislative and policy changes.

A copy of the consultation can be found at www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-2018-to-2019-invitation-to-comment The deadline to respond is 6 October 2017.

In addition, CIPFA is consulting on changes to both the prudential and treasury management codes. These codes have not been updated for some time and CIPFA recognises that they needed to be revised to take into consideration new patterns of local authority borrowing and investment activity.

The prudential code consultation can be found at www.cipfa.org/policy-and-guidance/consultations/consultation-on-proposed-changes-to-the-prudential-code and the treasury management code consultation at www.cipfa.org/policy-and-guidance/consultations/consultation-on-treasury-management-code

The closing date for responses for these consultations is the 30 September.

NAO Report – Progress in setting up combined authorities

Level of impact: ● (For information)

In July, the NAO published its report on *Progress in setting up combined authorities* which concludes that for combined authorities to deliver real progress they will need to demonstrate that they can drive economic growth and contribute public sector reform.

These authorities have inherently complex structures and are not uniform. They vary in the extent of the devolution deals they have struck with government. The combined authority with the greatest degree of devolution, Greater Manchester, has now absorbed control over the office of the police and crime commissioner and fire and rescue services. Others are currently primarily focused on transport issues, as well as housing and regeneration.

The report highlights a number of risks including:

- local councillors will have limited capacity for the overview and scrutiny of combined authorities. Furthermore, in May 2017, six mayors were elected to combined authorities in England, with candidates having campaigned on manifestos which frequently made policy commitments beyond the current remit of these organisations. This raises the question of whether mayors can be credible local advocates if they only deal with the limited issues under the remit;
- a number of authorities have been unable to bring local authorities together to establish combined authorities, while areas with a long history of working together have often found it most straightforward to establish combined authorities;
- the capacity of most combined authorities is currently limited and the lack of geographical coherence between most combined authorities and other providers of public services could make it more problematic to devolve more public services in the future; and
- if the United Kingdom’s departure from the European Union (EU) results in reductions in regional funding, the economic regeneration role of combined authorities would become more pressing. Combined authorities are generally in areas which receive the most EU funding. The North West, for example, is scheduled to receive in excess of 1 billion euros in European Regional Development Funds, European Social Fund, and Youth Employment allocations between 2014 and 2020.

The report is available on the NAO website at www.nao.org.uk/report/progress-in-setting-up-combined-authorities/

HMIC expands its role

Level of impact: ● (For information)

It was announced on 19 July 2017 that the Home Office has agreed that Her Majesty's Inspectorate of Constabulary (HMIC) will become the single inspectorate for policing and fire and rescue services in England and will be renamed Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). This means that in addition to the 43 police forces in England and Wales, HMICFRS will inspect a further 45 fire and rescue services in England.

The government has stated its intention to support continuing collaboration between policing and fire and rescue services, and HMIC's expanded role will facilitate activities such as inspection of collaborative working across both sectors, or, for example, where support functions have been combined. Sir Thomas Windsor will be appointed Her Majesty's Chief Inspector of Fire & Rescue Services, in addition to continuing as Her Majesty's Chief Inspector of Constabulary. Her Majesty's Inspector Zoë Billingham will lead the fire and rescue inspection programme.

The *Policing and Crime Act 2017* sets out the requirement for inspectors to inspect and report on the efficiency and effectiveness of fire and rescue services in England. HMICFRS therefore plans to consult with fire and rescue services and interested parties on the design of the inspection methodology, and will run pilot inspections with a small number of fire and rescue services in 2018. A full programme of inspections is expected to be rolled out later in 2018.

PSAA's Value for Money tool

Level of impact: ● (For information)

Public Sector Audit Appointments Ltd (PSAA) further updated their Value for Money Profiles tool (VFM Profiles) on 4 August 2017.

The VFM profiles have been updated with the latest available data for the following data sources:

- Alcohol related admissions to hospital (2015/16)
- Attainment by age 19 (2015/16)
- Claimant count (2017)
- Climate change statistics (2015)
- Collection rates for council tax and non-domestic rates (2016/17)
- Conception statistics (2015)
- Council tax demands and precepts statistics (2017/18)
- Delayed transfers of care (Q1 2017)
- Fire and rescue service statistics (2016)
- First time entrants into the youth justice system (2015/16)
- Fly tipping incidents and actions (2015/16)
- Fuel poverty (2015)
- Homelessness statistics (2016/17)
- Mid-year population estimates (2016)
- National road maintenance condition survey (2015/16)
- NHS health check data (2016/17)
- Pupil absence in schools (2015/16)
- School capacity (2016)
- Schools, pupils and their characteristics (2016/17)

The tool can be accessed through the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=-/profiles/VFM_Landing



Appendix

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2017	complete
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Authority's arrangements for securing value for money in the use of its resources.	Not required	
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 Authority's value for money arrangements.	July 2017	complete

Appendix 1

2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	July 2017	complete
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	July 2017	complete
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	September 2017	complete
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.	Not required	



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