



Technical update

Incorporating the External Audit Progress Report

Derbyshire County Council

January 2017

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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 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

This document provides the Audit and Risk 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>Since the Audit Committee meeting we have commenced our planning work for the 2016/17 audit. We have:</p> <ul style="list-style-type: none">• met with the Director of Finance on 6 December 2016 to to understand the current issues and priorities facing the Authority;▪ Agreed a meeting with the finance team 16th February to:<ul style="list-style-type: none">• Agree the 2016-17 timelines for the final accounts visit;• Discuss technical issues and review last year's agreed improvement actions;• Update our risk assessment and develop our detailed Audit Plan which we will present to the Audit and Risk Committee in March 2017. This will set out the scope of the audit in more detail;• Set out our approach for the interim field visit and requirements such as our prepared by client listing;• Attended the Derbyshire Audit Forum on 26th January;• Together with the Council Finance team we held a workshop focussed on Local Government early closure of accounts; and• Held a workshop for key members of your finance team who will be involved in and responsible for the 2016/17 close down and statement of accounts.
Certification of claims and returns	<p>As we no longer complete any certification work under the regime of Public Sector Audit Appointments we have not prepared a report covering this type of work. During the year we have completed some non-audit work in regard to the certification of grants and returns and reported this to you as part of our annual audit letter.</p>

External audit progress report (contd.)

This document provides the Audit and Risk 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
Summary of upcoming work	<p>Our upcoming work ahead of the next Audit and Risk committee includes:</p> <ul style="list-style-type: none"> ▪ Undertaking our interim work in March 2017 in advance of the final accounts audit. As part of this work, we will: <ul style="list-style-type: none"> • Complete our review over the appropriateness and application of general Information Technology (IT) controls operating over the key financial systems; • Complete Data Analytics work for Payroll and Accounts Payable and share results with management; and • Assess the effectiveness of your financial controls by completing the 'walk-throughs' of the key financial systems and control testing on a sample of transactions. ▪ Completing mandatory fraud inquiries with the Authority, including Internal Audit; and ▪ Carrying out our risk assessment in respect of your value for money arrangements, in particular: <ul style="list-style-type: none"> ▪ Reviewing the governance arrangements in place in regard to the establishment of new subsidiary companies; and ▪ Assessing progress being made in identifying opportunities for revenue savings and tracking savings achieved to date.



Technical developments

PSAA's Value For Money Tool

Level of impact: ● (Low)	KPMG perspective
<p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 3 October 2016.</p> <p>The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none"> — General fund revenue account budget (RA) (2016/17) — Child and working tax credit statistics (2014/15) — Children in low-income families local measure (2015) — Chlamydia testing activity dataset (CTAD) (2015) — Climate change statistics: CO2 emissions (2014) — Collection rates for council tax and non-domestic rates in England (2015/ 16) — Council tax demands and precepts statistics (2016/17) — Fuel poverty sub-regional statistics (2014) — Homelessness statistical release (P1E) (2015/16) — Housing benefit speed of processing (2015/16) — Mid-year population estimates (2015) — NHS health check data (2015/16) — Planning applications (2015/16) — Schools, pupils and their characteristics (2015/16) — Young people from low income backgrounds progressing to higher education (2013/14) <p>The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</p>	<p><i>The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.</i></p>

NAO report: Children in need of help or protection

Level of impact: ● (For Information)

The NAO has recently published a report entitled *Children in need of help or protection*.

The report finds that the actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality. NAO analysis found that spending on children's social work, including on child protection, varies widely across England and is not related to quality.

Neither the Department for Education nor authorities understand why spending varies.

The report finds that nationally the quality of help and protection for children is unsatisfactory and inconsistent, suggesting systemic rather than just local failure. Ofsted has found that almost 80% of authorities it has inspected since 2013 are not yet providing services rated as Good to help or protect children. Good performance is not related to levels of deprivation, region, numbers of children or the amount spent on children in need. Ofsted will not complete the current inspection cycle until the end of 2017, a year later than originally planned. The Department does not therefore have up-to-date assurance on the quality of services for 32% of local authorities.

The report also notes that children in different parts of the country do not get the same access to help or protection, finding that thresholds for accessing services were not always well understood or applied by local partners such as the police and health services. In Ofsted's view some local thresholds were set too high or low, leading to inappropriate referrals or children left at risk. In the year ended 31 March 2015 there were very wide variations between local authorities in the rates of referrals accepted, re-referrals, children in need and repeat child protection plans.

The report is available from the NAO website at www.nao.org.uk/report/children-in-need-of-help-or-protection

Consultation on 2017/18 work programme and scales of fees

Level of impact: ● (For Information)

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2017/18 work programme and scales of fees.

The consultation sets out the work that auditors will undertake at principal local government and police bodies for 2017/18, with the associated scales of fees. The consultation document, and the lists of individual scale fees, are available on the 2017/18 work programme and scales of fees consultation page of the PSAA website: www.psaa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees

There are no planned changes to the overall work programme for 2017/18. It is therefore proposed that scale fees are set at the same level as the scale fees applicable for 2016/17.

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*.

The consultation closed on Thursday 12 January 2017. PSAA will publish the final work programme and scales of fees for 2017/18 in March 2017.

This is the final year for which PSAA will set fees under the current transitional arrangements. The Secretary of State for Communities and Local Government has specified PSAA as an appointing person for principal local government and police bodies, under the provisions of the *Local Audit and Accountability Act 2014* and the requirements of the *Local Audit (Appointing Person) Regulations 2015*.

This means that PSAA will make auditor appointments under new audit contracts to bodies that choose to opt into the national scheme the company is developing, for audits of the accounts from 2018/19.

Further information is available on the appointing person page of the PSAA website: www.psaa.co.uk/supporting-the-transition/appointing-person

Overview of Local Government

Level of impact: ● (For Information)

The NAO has recently published an Overview of Local Government

The overview looks at the local government landscape and summarises both matters of likely interest to Parliament and the National Audit Office's (NAO's) work with local authorities. These include Local Government Responsibilities, Funding and Service Spending and the findings from the NAOs work on Local Government.

The overview is available from the NAO website at www.nao.org.uk/report/overview-local-government



KPMG resources



Disruptive trends: Technology

Disruption on multiple fronts is putting audit committees on high alert

Audit Committee Institute

Technological disruption continues to appear on the audit committee agenda. With many audit committees looking to ensure risk management and internal control systems are addressing the full range of existing and emerging risks, ensuring that the technological expertise on the committee is appropriate is an increasing challenge.

With cyberattacks on corporate networks and systems becoming more advanced, cyber security remains a major oversight concern for audit committees (and boards). Years ago, retail and financial services organisations were most at risk due to the processing of credit card data. Today, personal information is frequently targeted over credit card data, placing a much broader range of organisations at risk. The cyber security challenge can be broken into five more granular topics:

1.Data protection Data protection, while clearly connected to cyber security, actually falls into a larger business security category, as data loss can occur in many ways. When considering data protection, audit committees often receive from management a list of security programs that are currently in place; however, the first step should really be making sure the right information has been identified and data sets clearly defined. This can be a challenge as what is considered relevant continues to change. Today, things like user names, passwords, awards program profiles and social media accounts are being targeted. Given that this list will continually evolve, audit committees should regularly confirm that the definition and protection of alternative data sets - beyond standard credit card information - is being carried out. To augment the information they have at hand, audit committees can also request relevant data directly from IT, for example, testing results, reviews of key data and hacking reports.

2.Social engineering Social engineering is a broad term for any kind of psychological deception or exploitation of the "human factor" to gain access to information. Email phishing is one form, but attacks can be much more complex, employing phone calls, physical impersonation or any scenario that plays on the target's sympathy, fear, greed, etc. Proper oversight should involve social media acceptable use policies and organisational workflows detailing proper account usage.

Disruptive trends: Technology (Cont.)

3. Auditing of third-parties Many organisations are relying more and more on third parties as part of their business model. The audit committee should ensure that management has considered and evaluated whether appropriate controls are in place to prevent misuse of any confidential customer information aggregated by third-party vendors. To be more certain that the organisation is not creating additional liabilities, third-party audits are becoming more common.

4. Cyber insurance Cyber insurance addresses an organisation's liability when faced with cyber-based risks, such as a data breach or data destruction resulting in the loss of sensitive information. Organisations are beginning to purchase these types of policies, but there remains some confusion over exactly what is and isn't covered. The audit committee should have oversight over whether such policies appropriately address the organisation's significant financial exposures.

5. Remediation procedures Too often, audit committees look at a cyber breach, ensure an established process is being followed, then move on. More and more, however, we see audit committees getting involved in post-mortem follow-up reviews, sometimes even going beyond the standard oversight role in order to understand what went wrong, ensure remediation compliance and probe for other areas of vulnerability to help combat future attacks.

Business model risk

When an organisation effectively implements an industry changing technological innovation, one major effect is that their competitors' business models - and possibly a business model that has been an industry standard - can be disrupted. Consider the effect ride sharing has had on the way the taxi industry has been operating for decades or how internet-based streaming services have changed the way television is purchased and consumed. Going forward, audit committees will need to pay greater attention to how, and which, disruptive technologies could potentially put the organisation's business model at risk

Technology project risk

Despite the impact of the current economy on some sectors, organisations continue to undertake IT and strategic transformation projects. This can be a concern if organisations lack proper IT experience on the board. Is significant expenditure being incurred on big transformation projects without the proper governance to protect or maximize the investment? At the same time, regulators are raising the bar in the area of IT risks and controls, signalling the fact that it's time for boards, and potentially audit committees, to address this as part of their risk portfolio.

Data & Analytics privacy risk

D&A is changing business significantly and the organisations that are best leveraging it are seeing dramatic results. However, like all disruptive technologies there are corresponding risks, including increased privacy risk.

Customers and other stakeholders entrust information to organisations for specific purposes, but those organisations may exploit that information in other ways using D&A. This creates significant privacy oversight challenges that boards and audit committees need to be aware of and address.

Disruptive trends: Technology (Cont.)

Putting the audit committee on high alert

Virtually no strategic conversation proceeds without someone citing the need to either be disruptive or to respond quickly to disruptive market and industry trends - trends that have typically been connected to technology in one way or another. We don't, however, generally think about the concept of disruption when talking about the audit committee, even when we're discussing its changing role and responsibilities.

However, the concept of disruption is broadening its meaning beyond its current association with the interaction between technology, business and market forces. It is being applied in other areas and to other, broader trends. One might talk, for example, about the disruptive impact of demographic or regulatory trends, rather than just technological ones. To that end, a high-level concept of disruption provides a valuable framework for discussing many of the changes and challenges currently facing the audit committee. And there are, without question, a range of audit trends (auditor rotation, reporting, D&A, etc.), that can only be seen as disruptive, given the kind of substantive change they are driving and their potential to transform the way audit committees do what they do - and what they are increasingly being asked to do.

Disruption can affect audit committees in different ways. In some cases - for example, cyber security - audit committees might need to become more knowledgeable and more vigilant in their oversight due to the rapid, ongoing evolution of the field. In other areas, such as oversight of reporting and compliance, it is their own approaches and processes that are changing, as complex standards up the regulatory ante.

Going forward, managing inevitable change will be both an audit committee priority and a challenge and one that all audit stakeholders - directors, management, auditors, regulators, shareholders and even the public - have an interest in facilitating.

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UK Audit Committee Institute

As an audit committee member or non-executive director, it's important to keep abreast of the latest issues in order to overcome the challenges you face in today's economic climate.

The KPMG-sponsored Audit Committee Institute (ACI) is a growing international network that provides complimentary guidance and a variety of resources to audit committees. It is designed to update and refresh the skills and knowledge that enable each member to fulfil their role within the board.

Initiatives include a comprehensive programme of both topic and sector specific events, and a variety of regular and timely publications.

If you would like more information about the ACI or are interested in becoming a member, please [contact us](#) at auditcommittee@kpmg.co.uk



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Done
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2017	TBC
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 2017	TBC
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).	September 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	TBC
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. We expect that this will not be applicable for your audit.	TBC	TBC



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