



## AUDIT COMMITTEE REPORT

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| <b>Report Title</b> | <b>Chief Finance Officer Report to the Audit Committee</b> |
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**AGENDA STATUS: PUBLIC**

|                                      |                              |
|--------------------------------------|------------------------------|
| <b>Audit Committee Meeting Date:</b> | <b>26 October 2020</b>       |
| <b>Policy Document:</b>              | <b>No</b>                    |
| <b>Directorate:</b>                  | <b>Chief Finance Officer</b> |
| <b>Accountable Cabinet Member:</b>   | <b>Cllr Brandon Eldred</b>   |

### 1. Purpose

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- 1.1 To inform the Audit Committee about the work undertaken by the Finance team, in conjunction with the external auditors EY in respect of 2018-19 and 2019-20 Statement of Accounts.
- 1.2 To provide an update on the revised Internal Audit Programme to be undertaken by BDO.
- 1.3 To inform the Committee of any changes to accounting policies and Treasury Management.

### 2. Recommendations

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- 2.1 It is recommended that the Audit Committee note:
  - 2.1.1 The progress towards completing the Statement of Accounts for 2019-20.
  - 2.1.2 That there have been no changes to Accounting Policies.
  - 2.1.3 That there have been no reportable incidents in respect of Treasury Management, or requirements to change Treasury Management Policies.

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2.1.4 That subject to Cabinet approval, a request will be made to Council in September 2020 to increase HRA borrowing and budget by £50M to enable the pursuit of further housing schemes.

2.1.5 The revised Internal Audit programme as per paragraph 3.5 and contained in the appendix to this report.

## **3. Issues and Choices**

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### **3.1 Report Background**

3.1.1 This report provides an overview of the current position in respect of the Statements of Accounts due for Northampton Borough Council and other accounting or treasury policy items requiring reporting.

### **3.2 Accounting Policy Changes**

3.2.1 There have been no Accounting Policy changes since the last Audit Committee, nor are there anticipated to be any during 2020/21.

### **3.3 Treasury Management**

3.3.1 There have been no reportable incidents, the LGSS Treasury Management Team continue to work hard to maximise the interest earned through the investment vehicles available and reduce the interest paid on borrowing where possible.

3.3.2 The Mid Year Treasury update report will be provided to the Committee at its December 2020 meeting.

### **3.4 Completing 2019-20 Statement of Accounts**

3.4.1 The draft Statement of Accounts are provided as a separate agenda item. The Committee are reminded that they are a true 'draft' set of accounts as until the 2018-19 Audit is completed the opening balances cannot be confirmed, therefore there will be a technical update to provide a final draft prior to the commencement of the audit proper by EY.

3.4.2 As there are likely to be further technical changes to the accounts a further draft set will be prepared prior to EY commencing their formal audit. Until the Accounts for 2018-19 are fully audited and signed off, the opening balances and related transactions can only be provisional at this time.

3.4.3 In respect of the proposed audit fee for 2018-19 Statement of Accounts, it has been agreed with the Auditor, EY, that as the increase is material, the Council will raise an issue with PSAA (the organisation that manages the external audit contracts) with a view to seeking arbitration.

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### **3.5 Audit 2018-19 Statement of Accounts**

- 3.5.1 The external auditor EY, has confirmed they will recommence the audit of the 2018-19 Statement of Accounts in November 2020. The Audit Partner has introduced the new lead auditor/team to our Closedown Team (now provided by NCC, post changes to LGSS).

### **3.6 Internal Audit Programme**

- 3.6.1 As a result of resource constraints due to services delivering services and solutions to support the Council's response to the Covid Pandemic, in conjunction with the use of BDO to provide assurance support to the processing of c£34M of BEIS Business Grants. The Internal Audit programme for 2020-21 has been revisited and revised to focus on key reviews that can be delivered within the remainder of this financial year.
- 3.6.2 The next formal update from Internal Auditors (BDO and LGSS Internal Audit) is due to be delivered at the December 2020 Audit Committee. By way of assurance, a progress summary against prior years recommendations and current year programme is provided as an appendix.

### **3.7 Budget Update 2020-21**

- 3.7.1 The latest Budget Monitoring update has been provided to Cabinet on 9 September 2020 ([Cabinet Report - Budget Monitoring August 2020](#)). This identified a forecast overspend of £0.939M a reduction from the August Report of an overspend risk of £1.434M.
- 3.7.2 The next report representing the mid-year position will go to Cabinet on 11 November 2020. The work toward this report indicates a further reduction in the forecast overspend in part due to the submission of grant in respect of the Government contribution toward lost income through Fees and Charges as a direct result of Covid19.
- 3.7.3 The Council continues to review costs and grants available to support its Covid19 activities whilst maintaining day to day services.

### **3.8 Redmond Review**

- 3.8.1 This Review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.
- 3.8.2 One of the key findings of the report was as has been reported to this Audit Committee previously that the current Statement of Accounts are overly technical and unreadable by the majority of the public and even professional finance staff. An extract from the executive summary is provided below.

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- 3.8.3 “The issue of transparency is of equal relevance to the current presentation and publication of the annual accounts. Given that the feedback from practitioners and other key stakeholders revealed that current statutory accounts prepared by local authorities are considered to be impenetrable to the public, it is recommended that a simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year. This would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be prepared in addition to the statutory accounts, which could be simplified. All means of communicating such information should be explored to achieve access to all communities.”
- 3.8.4 The report also provides views in respect of the capacity of External Auditors, the timing of audits and the effectiveness of the PSAA and a recommendation to replace the PSAA with a larger, more empowered organisation to improve the standard of audits. The full report is being considered by the Finance Workstream in respect of its proposals and impact on the new authorities. The following provides a link to the published report [Redmond Review](#).

### **3.9 Choices (Options)**

- 3.9.1 Although this report is just for noting, Audit Committee have the opportunity to ask questions directly to Officers on its content, these may be responded to as written answers outside of the meeting.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

- 4.1.1 None to report.

### **4.2 Resources and Risk**

- 4.2.1 The Council diverted significant staff resources in order to ensure that EY were provided with the required information to enable them to give their opinion on the 2018-1918 statement of accounts as soon as was practicable. This has had a knock-on impact on the ability to progress the closure of the 2019-20 accounts.
- 4.2.2 There is a risk that improvements could not be made within the financial year 2019-20, if any arise from the audit of 2018-19 due to the timing of the audit itself. These will be actioned for 2020-21.
- 4.2.3 The Council has mitigated the risk of failing to deliver Housing Benefit Subsidy Claims on time, through continuing to use an alternative audit provider, KPMG.

### **4.3 Legal**

4.3.1 The actions proposed in this report will enable the Council to meet its statutory requirements of finalising its draft 2019-20 Statement of Accounts and publishing for public scrutiny.

4.3.2 There remains an outstanding audit objection to the 2015-16 accounts which is being progressed by KPMG. Which is likely to conclude with a form of public report which will be brought to the Audit Committee.

### **4.4 Equality**

4.4.1 Not applicable.

### **4.5 Consultees (Internal and External)**

4.5.1 External Auditors, BDO

4.5.2 External Auditors, EY

4.5.3 Corporate Management Board

### **4.6 Other Implications**

4.6.1 None.

## **5. Background Papers**

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5.1 None

**Stuart McGregor**  
**Chief Finance Officer**

INTERNAL AUDIT – Summary Update

Progress update 2018-19 & 2019-20 BDO Internal Audits

The following provides a summary update on progress in resolving recommendations from 2018-19 and 2019-20.

18/19

| Audit                         | No. red   | No. complete | No. outstanding |  | No. amber | No. complete | No. outstanding |
|-------------------------------|-----------|--------------|-----------------|--|-----------|--------------|-----------------|
| Procurement                   | 2         | 2            | 0               |  | 4         | 3            | 1               |
| Digital Strategy              | 0         | 0            | 0               |  | 2         | 2            | 0               |
| Member Officer Protocol       | 0         | 0            | 0               |  | 12        | 10           | 2               |
| Housing Rents                 | 0         | 0            | 0               |  | 0         | 0            | 0               |
| Temporary Accommodation       | 3         | 3            | 0               |  | 6         | 6            | 0               |
| Major Capital Projects        | 1         | 1            | 0               |  | 6         | 6            | 0               |
| People                        | 7         | 7            | 0               |  | 4         | 4            | 0               |
| Building Control              | 0         | 0            | 0               |  | 6         | 6            | 0               |
| Senior management restructure | 0         | 0            | 0               |  | 4         | 4            | 0               |
| Cash Handling                 | 3         | 3            | 0               |  | 3         | 3            | 0               |
| <b>TOTAL</b>                  | <b>16</b> | <b>16</b>    | <b>0</b>        |  | <b>47</b> | <b>44</b>    | <b>3</b>        |

|                                 |    |        |      |  |  |       |      |
|---------------------------------|----|--------|------|--|--|-------|------|
|                                 |    | 100.0% | 0.0% |  |  | 93.6% | 6.4% |
| Total number of recommendations | 63 |        |      |  |  |       |      |
| Total outstanding               | 3  |        |      |  |  |       |      |
| % outstanding                   | 5% |        |      |  |  |       |      |

19/20

| Audit                     | No. red   | No. complete | No. outstanding |  | No. amber | No. complete | No. outstanding |
|---------------------------|-----------|--------------|-----------------|--|-----------|--------------|-----------------|
| Planning & S106           | 0         | 0            | 0               |  | 2         | 2            | 0               |
| Enterprise Zone           | 0         | 0            | 0               |  | 7         | 7            | 0               |
| GDPR                      | 1         | 0            | 1               |  | 1         | 1            | 0               |
| Health & Safety           | 2         | 2            | 0               |  | 4         | 4            | 0               |
| Contract management       | 0         | 0            | 0               |  | 1         | 0            | 1               |
| Cyber                     | 0         | 0            | 0               |  | 3         | 1            | 2               |
| Asset Management          | 8         | 6            | 2               |  | 6         | 0            | 6               |
| Disabled Facilities Grant | 9         | 8            | 1               |  | 1         | 1            | 0               |
|                           |           |              | 0               |  |           |              | 0               |
| <b>TOTAL</b>              | <b>20</b> | <b>16</b>    | <b>4</b>        |  | <b>25</b> | <b>16</b>    | <b>9</b>        |

|                                 |     |       |       |  |  |       |       |
|---------------------------------|-----|-------|-------|--|--|-------|-------|
|                                 |     | 80.0% | 20.0% |  |  | 64.0% | 36.0% |
| Total number of recommendations | 45  |       |       |  |  |       |       |
| Total outstanding               | 13  |       |       |  |  |       |       |
| % outstanding                   | 29% |       |       |  |  |       |       |

Recommendations that relate to provision of training for officers or councillors will be closed for the purpose of NBC Internal Audit and the recommendations provided to the relevant workstreams with a view to improving awareness in the new authority, e.g. those relating to Officer/Member Protocol and Procurement.

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### Progress update 2020-21 BDO Audit Programme

| Name of Review              | Proposed Audit Dates | Days in Plan | Progress   |
|-----------------------------|----------------------|--------------|--|
| Capital Projects            | 12-21 Aug 2020       | 15           | Fieldwork has been completed and the report in progress  |
| Climate Emergency           | 2-6 Nov 2020         | 12           | Scoping call conducted, terms of reference updated and issued to NBC for confirmation.               |
| HMO Licensing Enforcement   | 14-18 Dec 2020       | 20           | Terms of reference has been agreed   |
| Licensing                   | 16-20 Nov2020        | 10           | Scoping call conducted, terms of reference updated and issued for agreement.                         |
| NPH Service Level Agreement | 9-13 Nov 2020        | 20           | Service reviewing Terms of Reference   |
| Social Lettings Agency      | 5-9 Oct 2020         | 15           | Terms of reference has been agreed, opening meeting conducted to agree documentation to be provided. |
| Follow up                   | Ongoing              | 7            | Follow up trackers issued and monitored on a regular basis   |