

**NORTHAMPTON BOROUGH COUNCIL  
AUDIT COMMITTEE**

Your attendance is requested at a meeting to be held in the  
The Guildhall, St. Giles Square, Northampton, NN1 1DE.  
on Monday, 18 June 2018  
at 6:00 pm.

**George Candler  
Chief Executive**

**AGENDA**

**1. APOLOGIES**

Please contact Democratic Services on 01604 837722 or democratic\_services@northampton.gov.uk when submitting apologies for absence.

**2. MINUTES**

**3. DEPUTATIONS / PUBLIC ADDRESSES**

**4. DECLARATIONS OF INTEREST**

**5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED**

**6. GOVERNANCE ACTION PLAN**

(Copy herewith)

**7. POSITION STATEMENT ON VACANT POSTS AND INTERIM/AGENCY STAFF**

(Copy herewith)

**8. STATEMENT OF ACCOUNTS 2016/17 PROGRESS REPORT**

(Copy herewith)

**9. TREASURY MANAGEMENT AMENDMENT**

(Copy herewith)

**10. INTERNAL AUDIT REPORT (LGSS)**

(Copy herewith)

**11. INTERNAL AUDIT ANNUAL REPORT (PWC)**

(Copy herewith)

**12. EXTERNAL AUDIT UPDATE**

(Copy herewith)

**13. EXCLUSION OF PUBLIC AND PRESS**

THE CHAIR TO MOVE:

“THAT THE PUBLIC AND PRESS BE EXCLUDED FROM THE REMAINDER OF THE MEETING ON THE GROUNDS THAT THERE IS LIKELY TO BE DISCLOSURE TO THEM OF SUCH CATEGORIES OF EXEMPT INFORMATION AS DEFINED BY SECTION 100(1) OF THE LOCAL GOVERNMENT ACT 1972 AS LISTED AGAINST SUCH ITEMS OF BUSINESS BY REFERENCE TO THE APPROPRIATE PARAGRAPH OF SCHEDULE 12A TO SUCH ACT.”

**Public Participation**

Members of the public may address the Committee on any non-procedural matter listed on this agenda. Addresses shall not last longer than three minutes. Committee members may then ask questions of the speaker. No prior notice is required prior to the commencement of the meeting of a request to address the Committee.

## NORTHAMPTON BOROUGH COUNCIL

### AUDIT COMMITTEE

Monday, 15 January 2018

**PRESENT:** Councillor M Markham (Chair); Councillor Oldham (Deputy Chair);  
Councillors Golby, J Hill, Marriott, Stone and Joyce

#### 1. APOLOGIES

Apologies were received from Councillor Chunga, who was substituted by Councillor Joyce.

#### 2. MINUTES

The Minutes of the meeting held on 13<sup>th</sup> November 2017 were confirmed and signed by the Chair.

The Chair noted that an update of the minutes was information relating to the recruitment process of the Independent Chair of the Audit Committee, which she explained had been re-advertised, the closing date being the 28<sup>th</sup> February 2018.

#### 3. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

#### 4. DECLARATIONS OF INTEREST

There were none.

#### 5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

There were none.

#### 6. GOVERNANCE ACTION PLAN

The Governance and Risk Manager elaborated on a report that outlined the progress made to date on implementing the Council's Governance Action Plan (GAP). It was explained that of the 48 items originally listed for implementation, 12 remained open and since the last Audit Committee, 7 further actions had been completed. It was noted that two related actions on the plan were on track but that the review date had been adjusted. The Annual Governance Statement was also on track but was not due to be completed until May/June 2018.

In response to questions asked, the Governance and Risk Manager commented that it would be hard to measure how effective the GAP was as there was a need for it to be embedded throughout the Council. She noted that the Risk Register would be updated, monitored and reported back to Audit Committee, alongside internal control review plans. It was noted that the Environmental Services Review had been classed as a project and subject to its own risk management processes and further monitored by the internal auditors. Responding to further questions, it was explained that the corporate programme and project boards would provide extra layers of control and increased scrutiny. It was agreed that an Internal Audit Plan be presented at a future Audit Committee which would show use and effectivity.

The Governance and Risk Manager explained that with regards to CIPFA/SOLACE a number of actions were in place and it was noted that there were a number of policies that

were out of date. It was recognised that there was a need to embed good practice throughout the Council. In response to questions asked, it was explained that whilst there were a number of out of date policies, these would be updated and reviewed annually. She further reported that the Whistleblowing policy had been updated and an external whistleblowing hotline had been set up.

## **RESOLVED:**

- 2.1 That the Governance Action Plan be reviewed.
- 2.2 That the Committee receive updated reports on the implementation of the Governance Action Plan from the Borough Secretary and Chief Finance Officer at every future meeting until it determines otherwise.

## **7. UPDATE ON SIGNING OF THE 2016/17 ACCOUNTS**

The Interim Finance Project Manager elaborated on a report that had been submitted informing the Committee on the work that had been undertaken towards enabling the external auditors (KPMG) to issue their audit opinion on the 2016/17 Statement of Accounts. It was explained that KPMG had advised the Chief Finance officer that there were 3 specific areas of concerns that they would need evidence and assurance on before being able to issue an audit opinion. It was explained that extensive work had been undertaken, with significant staff resources being diverted to ensure that KPMG were provided with adequate assurance to enable them to issue their opinion. Reassurance was given that the target date for issuing an external audit opinion remained the 31<sup>st</sup> January 2018.

In response to questions asked, the Interim Finance Project Manager commented that he was confident that the accounts would be signed off, but should KPMG not be satisfied they would have 2 options; to delay signing off the accounts or to qualify them. Responding to further questions, it was noted that a thorough review of the beacons would be completed by February 2017/18 but would not have any impact on the accounts.

The Chief Finance Officer explained that the extra costs incurred by the additional work undertaken by KPMG was in the region of £30,000 and that the final cost would be incorporated into future update reports from the External Auditors. It was explained that the additional work had not significantly delayed progress on 2017/18 accounts and it was noted that work by the Council and KPMG on next year's accounts was underway and seemingly positive.

In response to further questions asked, the Interim Finance Project Manager noted that the asset valuation had been extensive and that information would provide a baseline going forwards. It was explained that the Council had an asset register and a finance assets register which supported the accounts. It was further explained that some of the areas of concerns identified could be attributed to a number of factors which included a high turnover of staff in the asset department, as number of sudden departures and as such historic knowledge was lost and insufficient handover notes provided.

The Internal Auditor confirmed that their role in the organisation was to identify and develop plans on key risks areas and the operational processes.

The Chair thanked the officers and noted that whilst there was a need to recognise the areas of weakness identified, there was a need to move forward and be reassured by the reduction of risks.

**RESOLVED:**

That the Audit Committee noted the progress towards enabling KPMG to issue their external audit opinion on the 2016/17 accounts.

**8. ACCOUNTING POLICY 2017/18**

The Strategic Finance Business Partner submitted a report and which sought Audit Committees approval of the Council's Accounting Policies. It was noted that the Policies had been discussed with the External Auditors who did not observe any material changes. It was explained that although there had been no technical changes in the Council's accounting policies, there had been minor changes to the wording in order to enhance understanding.

The Strategic Finance Business Partner also highlighted that Accounting Policies specifically in relation to asset valuation had been discussed with the External Auditors and External Valuers in light of the current work on the 2016/17 Statement of Accounts.

In response to questions asked, the Strategic Finance Business Partner explained with regards to the Business improvement Districts (BID), business rates and an additional BID Levy were collected and this additional levy collected from both the BIDs is paid back to the BIDs on a monthly basis.

**RESOLVED:**

That the Audit Committee approved the Accounting Policies that would be applied in completing the 2017/18 Statement of Accounts.

**9. RISK REVIEW OF 2018/19 BUDGET REPORT**

The Chief Finance Officer submitted a report and elaborated thereon. He explained that the Audit Committee were being asked to consider issues in relation to risk within the budget proposals for 2018/19. Members were informed of a number of strategic risks identified within the budgets and the mitigation against them. It was explained that Government funding could potentially change and to mitigate the possible effect of this the Council was determining a prudent minimum level of General Fund balances. It was reported that the Government had carried out a spending review but figures were only available up to 2020, after which figures were unknown. It was noted however, that the Council's earmarked reserves were considered to be positive and relatively compared to other local authorities.

In response to questions asked, the Chief Finance Officer explained that cost of the Environmental Services contract would be higher in the first year as it was considered that additional work may need to be carried out in order to bring work up to a level of specification. It was noted that it was anticipated that the inflation figures would be built into the contract and would be factored into the final budget.

The Chair informed the Committee that a tracker document would be brought back to the Audit Committee updating members of the proposed risks to ensure the Council are targeting and assessing any potential risks.

**RESOLVED:**

That the Audit Committee considered issues in relations to risk within the budget proposal for 2018/19.

## **10. FINANCIAL MONITORING REPORT**

The Chief Finance Officer submitted a report and noted that the 2017/18 Financial Monitoring report would be presented to Cabinet on the 17<sup>th</sup> January 2018 and showed underspend on the Housing Revenue Account (HRA) and the General Fund. It was explained that there was a forecast overspend from the Head of Housing and Wellbeing which in part was due to a sharp rise in the number of homelessness application and the subsequent increase in the use of temporary accommodation and the added pressure of this would continue to rise.

In response to questions asked, the Chief Finance Officer explained that there was a need to ensure the Council had balanced financial positions. It was noted that there had been a decrease in the number of homeless people being housed in Bed & Breakfast accommodation as a number of them had been moved into more inexpensive accommodation and more people were being processed quicker. It was explained that the Homelessness Flexible Support Grant went some way to cover the costs but that it would only be available for 2018/19.

### **RESOLVED:**

That the report be noted.

## **11. CORPORATE DEBT - PROGRESS AND AGE DEBT ANALYSIS**

The Revenues & Benefits Technical Manager Financial submitted a report which sought consideration of the corporate debts as at 30<sup>th</sup> November 2017. It was noted that the overall outstanding Council tax arrears as at the 30<sup>th</sup> November 2017 was £333k less than at the same point the previous year. The Members' attention was drawn to table 2.43 of the report which listed the top 20 high value arrears cases for Business Rates (NNDR). It was further reported that there had been a slight increase in former tenant arrears and an increase in the number of Housing Benefit Overpayments, the increase being in line with the national trend for overpayments. The Revenues & Benefits Technical Manager explained that the overall outstanding Sundry Debts had increased which was primarily due to 2 Section 106 invoices which remained outstanding.

### **RESOLVED:**

That the latest position in relation to the Council's outstanding debts as at the 30<sup>th</sup> November 2017 was noted.

## **12. INTERIM STAFF UPDATE**

The Strategic Finance Business Partner submitted a report which sought to update the Committee with a position statement as to the numbers of staff vacancies and interim/agency staff engaged. It was noted that updated figures showed that the November 2017 figures for interim/agency staff totalled 24, a decrease from 39 when the Committee first asked for an update in March 16. The number of vacancies had also decreased from March 16, from 52 down to 41.

The Committee questioned whether the number of vacancies would decrease as part of the efficiency saving plans. The Strategic Finance Business Partner responded that where this is the case, this has been detailed by the Service in sections 3.2.4 -3.2.7.

**RESOLVED:**

That the report be noted.

**13. PWC INTERNAL AUDIT - VERBAL UPDATE**

The Internal Auditor verbally updated Members and noted that since the last Audit Committee in November 2017 they had issued a medium risk report around HR and a low risk from Payroll. She commented that they had been given a copy of the staff 'Pulse' survey. It was explained that they had issued a draft report around the updated Whistleblowing Policy, the Scheme of Delegations and Estates and Assets and noted that there had been continued work on the Environmental Services Contract. It was further explained that there had been changes to the number of allocated days and that they were being re-allocated which she did not consider would pose any issues with the signing of the Annual Internal Audit Plan.

The Chief Finance Officer commented that the Draft Internal Audit Plan had previously been brought before the Committee, commented on and finalised. He proposed that workshops be arranged to allow Members of the Committee the opportunity to explore and question the Internal Audit Plan.

**RESOLVED:**

That the verbal update be noted.

The meeting concluded at 7.49pm

**Appendices:**

1. Governance Action Plan
2. Corporate Board Structure
3. Internal Control Review Plan
4. Outstanding Internal Audit Recommendations



## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>Progress Update on Implementing the Governance Action Plan</b>
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**AGENDA STATUS: PUBLIC**

**Audit Committee Meeting Date: 18<sup>th</sup> June 2018**

**Policy Document: The Governance Action Plan**

**Directorate: Borough Secretary**

**Accountable Cabinet Member: Jonathan Nunn - Leader**

### 1. Purpose

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- 1.1.1 This report outlines the progress made to date on implementing the Council's Governance Action Plan.

### 2. Recommendations

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- 2.1 That the Committee review and comment and where appropriate constructively challenge the Governance Action Plan to inform further work on its content, development and implementation.
- 2.2 That the Committee agrees to required work that has been identified in light of the Governance Action Plan implementation.
- 2.3 That the Committee receive update reports on the implementation of the Governance Action Plan from the Borough Secretary at every future meeting until it determines otherwise.

### 3. Issues and Choices

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#### 3.1 Report Background

The Governance Action Plan is a fundamental document for the Council. The purpose of the plan is to ensure training and support is available for officers to strengthen and ensure effective governance arrangements and processes are in place within the Council.



### 3.2 Plan update:

3.2.1 Of the 48 actions originally listed for implementation, six remain open. Following the update reviews, 42 actions have been closed based on evidence received. Since the last Committee meeting in January, 2018, six actions have been completed.

GOVERNANCE AREA	Number of Actions	Fully Implemented	Partly Implemented	Not Implemented	To Be Confirmed
Risk Management	6	5	1	0	0
Project Processes	3	3	0	0	0
Programme & Project Support	5	5	0	0	0
Due Diligence	1	0	1	0	0
IA Recommendations	4	4	0	0	0
Exec. Decisions – Cabinet Processes	13	10	2	0	1
Governance	4	3	1	0	0
Financial Governance	11	11	0	0	0
Other	1	1	0	0	0
Total	48	42	5	0	1
Percentage	100%	88%	10%	0%	2%

The Governance Action Plan as at 31.05.18 can be found at **Appendix 1**.

3.2.2 Implementation of this Governance Action Plan is owned and overseen by this Committee, by the Leader of the Council, the Chief Executive and the Statutory Officers, by Corporate Management Board and the Corporate Improvement Board led by the Borough Secretary.

### 3.3 Improvement areas

The following are the key improvement areas in the Governance Action Plan since the last Audit Committee. The Plan itself is a precursor to further detailed work that is required to enable the control environment within the Council to be effective and robust.

#### 3.3.1 Risk Management

3.3.2 Risk management is a key priority in the Governance Action Plan and has three linked tasks which are firstly to review the risk management framework, policy, procedures and processes of the Council, secondly to embed risk management throughout the organisation and lastly to ensure there is effective risk reporting through the governance process.

3.3.3 Work has been completed in the Borough Secretary and Regeneration, Planning and Enterprise Directorates to complete service area risk registers. Customers and Communities and Housing and Wellbeing have maintained their own risk registers at Directorate level and these will be presented to the Corporate Improvement Board for review in June 2018.

3.3.4 **One area of the Council that has not been addressed is a risk register relating to Members. This piece of work will be completed over the next few months and will involve interviewing key Members of the Council.**

3.3.4 The Corporate Risk register was last updated in December 2017. Although the register would normally be updated on a quarterly basis, the work carried out within the service areas in relation to risk will feed into the Corporate Register which will be updated for any risks thought to affect the Council at a corporate level. There will be a review of the register during July to take into account new risks emerging as part of the Local Government Reorganisation.

3.3.5 If required, the risk register(s) may be presented to the next Audit Committee.

### **3.4 Governance – Board Structure**

3.4.1 As part of the review of governance within NBC, a restructure of the boards was implemented and has been in place as of the 4th January 2018. The boards are:

Corporate Delivery Board (monthly) – Still to be inaugurated.

Corporate Performance Board (bi-monthly) - active

Corporate Improvement Board (bi-monthly) - active

Corporate Management Board (bi-monthly) - active

The Corporate Delivery Board is responsible for reviewing all projects and performing gateway reviews before recommendations are made to Corporate Management Board. The delay in the start of this Board is due to the change in staff within the Regeneration Directorate and the need to consolidate knowledge of relevant projects. However, this is an area of management focus and any developments on the projects are required to be presented to Corporate Management Board for approval.

3.4.5 As per the last Audit Committee, attached at **Appendix 2** is the new structure of boards, their responsibilities and members. Please note that these boards may be subject to change by George Candler, Chief Executive who will be reviewing them over the next few weeks. In the meantime they will progress as planned.

### **3.5 Internal Control Review Plan**

3.5.1 **Appendix 3** presents the internal control review plan that will be started imminently. The first reviews to be conducted will be on interims and all service areas where an income stream has been identified.

3.5.2 Although the use of interims can be a short term effective solution, interim numbers and the length of service is reported at each Audit Committee the Council needs to have clear plans in place to ensure that these resources are properly managed.

3.5.3 We have historic and new income streams within all directorates and the limited reviews previously identify this as a high risk area with respect to

having effective controls in place to ensure all income is accounted for and reported correctly.

- 3.5.4 Although a formal report will not be prepared and issued as with an audit, there will be a report of findings and agreed actions with management that will be presented to Audit Committee quarterly. The Governance team will assist the service areas in implementing any improvements required and work with the teams to ensure policies and procedures are documented and up to date.

### **3.6 Outstanding Internal Audit recommendations**

- 3.6.1 In agreement with PWC, the Governance team are responsible for following up on internal audit recommendations.
- 3.6.2 **Appendix 4** details the current recommendations that remain outstanding and shows the progress update from the service areas as at 31<sup>st</sup> May, 2018.
- 3.6.3 We will continue to work with the management team to ensure recommendations are actioned. The internal control review will eventually cover all areas of the business and any previous audit recommendations will be taken into consideration when they are conducted.

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

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### **4.1 Policy**

- 4.1.1 There will be various impacts and indeed transformation of current policies. The governance action plan will ensure that all policies are tightened and individually and in aggregate contribute to embedding effective arrangements for risk management and to building a strong control environment at the Council.
- 4.1.2 Compliance with these policies will be monitored through the Internal Control reviews and reported upon through the governance structure and to the Audit Committee starting in the new financial year.

### **4.2 Resources and Risk**

- 4.2.1 The additional capacity required to implement the governance action plan previously reported to the Audit Committee has now been put in place through normal decision-making processes. Financial implications will be reported through the budget process.

### **4.3 Legal**

- 4.3.1 None to report at present.

### **4.4 Equality**

4.4.1 Whilst there are no specific equality implications at this stage, various HR policies will be reviewed through the governance action plan. All these reviews will be supported by equality and community impact assessments using Stonewall LGBT rights charity.

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

4.5.1 Internal consultation has taken place with Corporate Management Board and other senior officers, LGSS finance, and Internal Audit and External Audit on the matters in the governance action plan and external expert advice has been taken where required.

#### **4.6 Other Implications**

4.6.1 None specifically

### **5. Background Papers**

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5.1 Various internal working documents

**Francis Fernandes, Borough Secretary**

OPEN ACTIONS AS AT 31.05.18

Process area	REF.	ACTION	Action Priority	RESPONSIBLE OFFICER	DATE BY	IMPLEMENTATION STATUS	% COMPLETE	Status	RESPONSIBLE OFFICER UPDATE AS AT 31.10.17	REVIEW DATE
<b>A. RISK MANAGEMENT</b>	6	<p>Generate a training plan for key officer and member groups to include</p> <ul style="list-style-type: none"> <li>• Management Team</li> <li>• Heads of Service</li> <li>• Project Managers</li> <li>• Members - Cabinet</li> <li>• Audit Committee members</li> </ul> <p>Specialist risk management training to become mandatory for all officers involved in projects. This to apply to current and future projects.</p> <p>Specialist training, workshops to be arranged and delivered with external and internal resources and in consultation with the Council's internal auditors</p> <p>Establish and embed risk management surgeries.</p>	H	Governance & Risk Manager	30.09.17	Partially Implemented	75%	Overdue	<p>Proforma Training and Development form devised and to date the following have still to be interviewed:</p> <ul style="list-style-type: none"> <li>- Audit Committee (New Independent Chair, M.Markham, C.Chunga)</li> <li>- Chief Executive</li> <li>- Borough secretary</li> </ul> <p>PWC to facilitate risk management training once Independent chair in post.</p> <p>Governance team to embed themselves within DMT's to discuss, review and update risk registers on a quarterly basis.</p>	30.6.18
<b>D. DUE DILLIGENCE (Incl. loans to 3rd parties)</b>	15	<ul style="list-style-type: none"> <li>• Establish a due diligence and compliance manual</li> </ul>	H	Chief Financial Officer	31.3.18	Partially Implemented	50%	Overdue	<p>1. First stage (Loans Checklist) fully completed (95%). Second stage (production of the Manual itself) is being progressed internally but the methodology/approach is not decided yet may need a discussion on whether there is a need for some external/consultancy support to complete the Manual - Still to be completed.</p>	30.6.18
<b>F. EFFECTIVE DECISIONS - CABINET CLEARANCE PROCESS</b>	22	<ul style="list-style-type: none"> <li>• Deliver training on Equality Impact Assessments</li> </ul>	H	Leadership Support	30.10.17	Partially Implemented	25%	Overdue	<p>Equalities training included in the Licence to Practice Programme during June/July 2018. Equalities training provider identified as Qube learning - dates to be confirmed.</p>	30.6.18
	30	<ul style="list-style-type: none"> <li>• Monitoring of Cabinet decisions, implementation and compliance, included delegated decisions. To include regular reporting to the leader and audit committee.</li> </ul>	H	Borough Secretary	TBC	TBC	TBC	TBC	<p>The Democratic Services delegations have been audited by PWC. The service will be undergoing an internal review of their processes in line with the update of the Constitution in Summer 2018. Cabinet decisions and reporting will be developed and included within the process.</p>	30.6.18
	31	<ul style="list-style-type: none"> <li>• Delivery of the Licence to Practice Organisational Development and Training Plan to address key governance areas to improve governance skill-sets and capacity</li> </ul>	H	Borough Secretary/Interim HR Manager	31.12.18	Partially Implemented	75%	Ongoing	<p>A review of the plan has identified areas where internal training can be facilitated and specialist areas for external consultants i.e due diligence, risk management &amp; some elements of project management.</p>	30.6.19
<b>G. GOVERNANCE</b>	34	<p>Ensure there are adequate processes (incl. planning, engagement and best practice processes) in place in 17/18 to produce the Annual Governance Statement (AGS) in a timely manner</p>	H	Governance & Risk Manager	31.5.18	Partially Implemented	25%	On track	<p>Lessons learned exercise in progress and on-going on the 16/17 AGS in conjunction with Finance to identify areas for potential improvement including processes and presentation.</p> <p>The 17/18 AGS is in the process of being written by the Governance Manager.</p>	31.3.19

COMPLETED ACTIONS February - May 2018

Process area	REF.	ACTION	Action Priority	RESPONSIBLE OFFICER	DATE BY	IMPLEMENTATION STATUS	% COMPLETE	ON-TRACK RAG STATUS	RESPONSIBLE OFFICER UPDATE AS AT 31.10.17	REVIEW DATE
A. RISK MANAGEMENT	2	• Risk Management Strategy and Framework to be reviewed by Audit Committee.	H	Governance & Risk Manager	30.09.17	completed	100%		Presented to the Audit Committee 15th January 2018	31.12.17
	4	• Refresh and cascade the risk management strategy and framework	H	Governance & Risk Manager	31.03.18	completed	100%		Work has started to embed the risk management strategy throughout the business through involvement with service area DMT's. Service plans and related risk registers and KPI's are included in a new format. The governance team are working with the service areas to complete these documents prior to the new financial year.	31.03.18
B. REVIEW ALL CURRENT PROJECT PROCESSES	8	Identify and log all projects currently live and in the pipeline. Perform reviews of each project for feasibility and governance assurance.  Ensure all relevant projects to go through a gateway or similar process, including a) Categorise and apply rigorous but proportionate methodologies and documentation. b) Requirement for a Project Initiation Document (PID), minuted project/programme meetings and a full risk assessment c) Programmes/projects will be required to be maintained on central paper records with clear documented minutes of meetings and professional advice received.	H	Borough Secretary	30.09.17	completed	100%		A register will be produced and maintained centrally and reviewed by Management Board.  Individual project registers for IT and 'other' will be merged into one main document with reference numbers allocated once approved by Corporate Management Board.	30.6.18

COMPLETED ACTIONS February - May 2018

Process area	REF.	ACTION	Action Priority	RESPONSIBLE OFFICER	DATE BY	IMPLEMENTATION STATUS	% COMPLETE	ON-TRACK RAG STATUS	RESPONSIBLE OFFICER UPDATE AS AT 31.10.17	REVIEW DATE
	9	<p>Risk reporting to be reviewed ensuring that there is an effective cascade and tracking of risk through governance arrangements</p> <p>Refreshed monitoring and tracking process ie project/service risks may also become a corporate risk</p> <p>Clarity on risk exception reporting process. Corporate, service and project risks are to be reviewed monthly.</p>	H	Borough Secretary	31.3.18	completed	100%		<p>A revised risk register template has been implemented and incorporates a service risk log, information risk log, fraud risk log and health and safety risk log.</p> <p>The governance team will be working with each directorate and service areas to record the risks within their areas; the registers will be updated each quarter.</p> <p>Once updated, the risk registers will be presented to the Corporate Improvement Board for review and where appropriate, identified risks will be escalated to management board for inclusion in the corporate risk register.</p> <p>The corporate risk register will also be reviewed quarterly with recommendations made to management board in relation to adding/deleting new and existing risks.</p>	31.12.17
<b>C. PROGRAMME &amp; PROJECT SUPPORT</b>	14	<ul style="list-style-type: none"> <li>Mandatory Training programme on project programmes and major projects competencies to be completed as part of the Licence to Practice Programme and to be written into staff contracts</li> </ul>	H	Governance & Risk Manager	31.12.17	completed	100%		<p>Major programme and project management training is included in LTP as a high-priority module. Mandatory training element will be progressed in line with roll-out of the project management framework to start March 2018 onwards.</p>	30.6.18
<b>G. GOVERNANCE</b>	33	<ul style="list-style-type: none"> <li>Carry out a fundamental review of all current NBC governance arrangements against the CIPFA/SOLACE 2016 standard.</li> <li>full gap analysis and action plan to address any identified weaknesses</li> <li>Update the local code with annual reporting against the code to Audit Committee</li> </ul> <p>External validation report of progress against the standard</p>	H	Governance & Risk Manager	30.09.17	completed	100%		<p>An assessment has been carried out and the results are:</p> <p>Actions in place/partly in place = 84%</p> <p>Not in place = 16%</p> <p>Quite a number of actions relate to the update of policies and procedures.</p> <p>A full gap analysis was presented at the January 2018 Audit Committee. The actions to be addressed will be ongoing over the next two years with a view to gaining accreditation in the third year. The actions needed are intrinsically linked to the change in management and culture within NBC.</p>	Annual review

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## Terms of reference

15th January 2018

Board Name	Frequency	Responsibilities	Chair	Deputy	Finance	Legal	Risk	HR	Comms	Regen/ Planning	Environment & Culture	Housing	PA
Corporate Improvement Board	Bi-monthly	Internal controls (inc. IT governance) Governance action plan and LTP Risk registers Internal/external audit recommendation implementation Asset management	Francis Fernandes	S151 Officer	<b>Deputy chair</b>	<b>Chair</b>	Jo Bonham	Cathie Wright	quarterly/on request		Marion Goodman		Maggie Hickman
Corporate Resources Board	Bi-monthly	Budget monitoring Efficiency & savings Review of corporate resource e.g. IT/HR/Legal	S151 Officer	Paul Hymers	<b>Chair &amp; Deputy chair</b>		Karen Middleton	Karen Marriott	quarterly/on request		Marion Goodman	Phil Harris	
Corporate Performance Board	Bi-monthly	KPI review Corporate and Service plan progress Review of third party relationships (including LGSS and NPH) Review of internal project referrals from the Corporate Delivery Board	Julie Seddon	Phil Harris	Paul Hymers		Jan Stevenson/Alice Turrell		quarterly/on request	Peter Baguley/	<b>Chair</b>	<b>Deputy Chair</b>	Viv Bicknell
Corporate Delivery Board	Monthly	Review of project registers Project gateway reviews Contract management of waste provision Strategic Housing Capital programme governance	Rick O'Farrell (interim)	Peter Baguley	Antony Russell		Jo Bonham		quarterly/on request	<b>Chair/ Deputy chair</b>	Marion Goodman	Phil Harris	Marina Stafford



Directorate	Responsible Officer	Service Area	Review
<b>Corporate Reviews:</b>			
Borough Secretary	Francis Fernandes	HR & Payroll	Use of interims and agency staff
Borough Secretary	Francis Fernandes	HR & Payroll	Management of the Establishment List / Structure Charts
Borough Secretary	Francis Fernandes	LGSS Finance	Agresso - Users and Approvers
<b>Income Reviews incl. Recharges: These will include a review of the processes in place within NBC / LGSS</b>			
Borough Secretary	Francis Fernandes	Practice Management	Land Charges
Borough Secretary	Francis Fernandes	HR & Payroll	NPH Payroll Recharges
Customer & Communities	Julie Seddon	Customer & Cultural	Town Centre Management - Parking
Customer & Communities	Julie Seddon	Customer & Cultural	Call Care
Customer & Communities	Julie Seddon	Customer & Cultural	Market
Customer & Communities	Julie Seddon	Customer & Cultural	Town Centre Management - Bus Station
Customer & Communities	Julie Seddon	Customer & Cultural	Facilities - Post Room
Customer & Communities	Julie Seddon	Environmental Health & Licensing	Licensing - Taxi Licensing
Customer & Communities	Julie Seddon	Customer & Cultural	Facilities - Guildhall
Customer & Communities	Julie Seddon	Customer & Cultural	Town Centre Management - CCTV
Customer & Communities	Julie Seddon	Customer & Cultural	Museum
Customer & Communities	Julie Seddon	Environmental Health & Licensing	Licensing - Gambling Act
Customer & Communities	Julie Seddon	Environmental Health & Licensing	Licensing - Licensing Act
Regeneration, Enterprise & Planning	VACANT	Economic Development & Regeneration	Asset Management - Estates Management
Regeneration, Enterprise & Planning	VACANT	Planning	Development Control

<b>Directorate</b>	<b>Responsible Officer</b>	<b>Service Area</b>	<b>Review</b>
Regeneration, Enterprise & Planning	VACANT	Planning	Building Control
Housing & Wellbeing	Phil Harris	Housing Options & Advice	Temporary Accommodation
Housing & Wellbeing	Phil Harris	Private Sector Housing	HMO Licencing
Housing & Wellbeing	Phil Harris	Private Sector Housing	Empty Homes Scheme
Housing & Wellbeing	Phil Harris	Private Sector Housing	Civil Penalties Income

Audit Title	Finding	Finding Rating	Agreed Action	Action Status	Responsible People	Implementation Deadline	Progress Update
Data Protection	<p>Following a recent breach of the data protection policy, a "Data Protection Overview Audit" was undertaken by independent consultants, Information Management Training Services Limited (IMTS) in April 2014. The outcome of the review raised several recommendations to improve the management of data protection.</p> <p>At the time of our internal audit review the IMTS report had not been finalised and as such recommendations had not been agreed or an action plan to implement recommendations prepared. We reviewed the draft recommendations made in the IMTS report with the Senior Information Governance Officer who confirmed that a number of these recommendations in relation to the following areas are still outstanding:</p> <ul style="list-style-type: none"> <li>- Awareness and training</li> <li>- Retention schedule for documents</li> <li>- Vulnerability to one individual officer</li> <li>- External contractors responsibilities</li> </ul>	Medium	The IMTS report should be finalised and an agreed action plan developed to address the recommendations made.	Open	David Taylor	30/06/2015	<p>Dedicated GDPR Data Protection Officer has been in post since September 2017.</p> <p>A revised training and awareness programme will be implemented from April 2018 in respect of the new GDPR and updated Data Protection Policy.</p> <p>Retention schedule for all documentation is being reviewed department by department, as part of the corporate roll out of EDRMS.</p> <p>Short term resilience from Partner agencies, succession planning to be implemented by 31st December.</p> <p>External contractors responsibilities will be reviewed as part of the contract management review.</p> <p>More robust wording and guidance around Safe Haven and Clear Desk will be included in the Data Protection Policy. The policy draft is to go to Cabinet on 13th June.</p>
Data Protection	<p>The Senior Information Governance Officer keeps a log of all the Data Sharing agreements in the Council. Before access is given for a data sharing agreement, it is required to be authorised by a senior member of staff.</p> <p>We tested a sample of 5 data sharing agreements and noted a lack of evidence of authorisation for all five cases. It was also identified that documents were not kept in a file together and the Senior Information Governance Officer did not have the signed copies of the final agreement that was issued.</p> <p>The Data Protection Policy states that once an agreement has been logged on the register it is required to be reviewed every 12 months. During the testing of 5 data sharing agreements there was an absence of timely review in all cases.</p>	Medium	During the audit the Senior Information Governance Officer took immediate action to organise the files so that information was accessible in a grouped folder. He also updated the log to include additional columns to prompt documentation of future agreements. A review should be carried out of all agreements currently in place to find all documentation relating to the agreement and store it together in a central folder. It is important that the SIGO is in full knowledge of all Data sharing agreements within the Council. An annual review of each of the agreements should be carried out to ensure that they are still in place and to update any areas where the conditions of the sharing agreement have changed. For major changes these should require a new agreement to be submitted and authorised.	Open	David Taylor	30/06/2015	Working with NCC and other partner organisations to update the spreadsheet. The Governance Support Officer is working with the Data Protection Officer on this.

Economic development and regeneration	<p>If there is a change in the Project Manager, they have the opportunity to meet and discuss their project with the LGSS Project Support to ensure they are compliant with the relevant policies, legislation, required documents and are working in accordance with the Council's policies.</p> <p>However, this is not a mandatory approach and requires the new Project Manager to actively seek this support.</p>	Low	Where new project managers are appointed there should be a formal process of reviewing existing documentation and explaining the Council's processes to individuals undertaken by the Transformation Project Manager.	Open	Alice Turrell	28/02/2017	Changing Project Manager... Each of the Directors is aware of the Project Support available which is now provided by NBC not LGSS. This will be fully detailed in the new programme Project Management Framework that has been completed as at 31 March 2018. As part of this framework it is intended that a project
Economic development and regeneration	<p>Project summaries are maintained for individual projects which detail project leads, current status and whether an appropriate monthly highlight report or other progress report has been submitted and reviewed.</p> <p>There is no overall document to summarise all projects currently underway within the Council. Having such a document would provide the opportunity to review the department progress as a whole and ensure all relevant documents have been prepared in compliance with the established process.</p>	Low	A checklist should be maintained, documenting all projects, to ensure all required documents are completed along with dates they are prepared and reviewed to ensure continued compliance with the established process.	Open		30/06/2017	A project register is maintained on a monthly basis and is reported to the Northampton Alive Board. This details the individual project, the project leads the current status, and whether a highlight report has been submitted for that past reported month. It also reports the progress for that reporting period. If there were any corporate risks or corporates issues reported by the board, this would initiate a exception report, which is cascaded up to management board for guidance and decision making. Due to the post of Director of Regeneration, Enterprise and Planning being vacant, the process for monitoring the projects has stalled.
Housing options-1	<p>There are no procedure notes available to formalise the operation of controls and processing of Temporary Accommodation. Although all members of the Housing Options &amp; Advice Team are responsible for ensuring that they are up-to-date with legislative changes –and this is reflected in their job descriptions –it is the team leaders and the Housing Options &amp; Advice Manager who are responsible for ensuring that all of the Housing Options &amp; Advice Team's procedures, including those relating to Temporary Accommodation, are fit for purpose and in line with legislation, case law and government guidance.</p> <p>During the testing of control effectiveness, discrepancies were identified in the implementation of the controls, especially regarding the types of identification which are appropriate and the purpose of obtaining photographs of</p>	Medium	<p>Procedure notes should be created for all areas and going forward processes put in place to ensure these are reviewed and updated regularly to reflect changes in legislation and clarify the procedures to be undertaken.</p> <p>We understand officers have already contacted other local authorities and obtained a copy of their policies and procedures which will be adapted to reflect the Council's processes. A suite of new policies and procedures are now being developed for the procurement and allocation of Temporary Accommodation, including move-on arrangements.</p>	Open	Phil Harris	30/06/2017	TBA

Housing options-2	<p>The department has developed an action plan identifying areas of the current processes and procedures which require improvement. Whilst some of these have appropriate actions in place a number of these future plans have stalled which is preventing improvements to the department being implemented. This is relevant to the following areas:</p> <ul style="list-style-type: none"> <li>•The department would like to redesign the existing paperwork to make the process more efficient and reduce the repetitive and irrelevant information currently obtained; however, we understand that this has not been possible due to the increased demand for the service and the fact that Senior Officers have needed to spend time supporting frontline staff;</li> <li>•Given the significant increase in demand for Temporary Accommodation the department would like to source additional properties through Northampton Partnership Homes, a Private Sector Leasing Scheme and a Social Letting Agency. As an Arms Length Management Organisation of the Council, NPH actions should be taken to co-ordinate a consistent strategy and action plan for increasing the supply of lower cost Temporary Accommodation. Additional staff support is required to establish the PSL and SLA schemes; and</li> <li>•Whilst a 2017/18 budget has been developed this is on a very high level and not sufficiently detailed enough or reflecting the current level of overspend owing to increased demand for Temporary Accommodation. A number of these actions would improve the efficiency of the service and reduce costs incurred by the Council. In January 2017, the Council's Cabinet approved a comprehensive, fully costed business case for the</li> </ul>	Medium	<p>The Head of Housing &amp; Wellbeing and the Housing Options &amp; Advice Manager have been asking Northampton Partnership Homes, for the past 18 months, to increase the number of council homes used as Temporary Accommodation. However, despite it being a financial imperative for the Council, only 15 additional properties have been made available since October 2015. Northampton Partnership Homes has indicated that it would like to make changes to the current Temporary Accommodation arrangements and is in the process of drafting a proposal for the Council to consider.</p> <p>Monitoring will continue in order to assess the year end outturn and, given the current level of demand, the cost pressures on the 2017/18 budget.</p> <p>A review of the proposed future developments will be undertaken and an agreement in terms of direction and investment established by management in order to identify and implement service improvements that will remove inefficiencies, build the capacity of the Housing Options &amp; Advice Team and ensure that the Housing Options &amp; Advice Team is equipped to undertake effective casework, prevent homelessness and reduce the number of homeless households living in Temporary Accommodation.</p>	Open	Phil Harris	31/03/2018	TBA
Housing options-3	<p>The testing of a sample of 25 Temporary Accommodation applications (split between Council stock, B&amp;Bs and County Chambers) identified a number of issues, including:</p> <ul style="list-style-type: none"> <li>•2 applications had no evidence to demonstrate a proof of income had taken place;</li> <li>•10 applications had not recorded a unique reference to support effective reporting and retention of information;</li> <li>•10 applications had not recorded the number of bedrooms required; however a retrospective review of this determined that the appropriate sized accommodation had been provided based on family circumstances; and</li> <li>•Whilst all 25 applications were signed as reviewed and approved by a senior officer it is not possible to determine who has signed the documents and whether this is</li> </ul>	Low	<p>It is intended that, as the service migrates towards a paper-light way of working over the coming financial year –with the support of new software –new procedures will be developed and implemented.</p> <p>In the meantime, when approving Temporary Accommodation placements, all Senior Officers must now sign and print their name, and record the date of authorisation. In addition, the number of bedrooms that each household requires will also be added to the Temporary Accommodation records.</p> <p>Staff have already been reminded of the importance of fully completing the prescribed paperwork and ensuring this is complete to demonstrate a full record of actions taken by the Housing Options &amp; Advice Team.</p>	Open	Phil Harris	31/03/2018	TBA

Housing options-4	There is monthly performance monitoring performed around a number of key performance indicators produced on a monthly basis. However, a report was produced which summarised the Temporary Accommodation utilisation figures over the last 12 months which management found to be a helpful summary. This report was produced as a one off report as part of the establishment of a Social Letting Agency. It would be beneficial to produce this report on a regular basis and include as part of the monthly monitoring and reporting which is currently provided to management and could be used to support the case with Northampton Partnership Homes for an increase in the provision of Temporary Accommodation. Although the Council has access to all other local	Low	1. Management will review the performance information that is currently being monitored and consider the methods and content of future reports, including annual usage and benchmarking information against other local authorities.  2. Management will carry out a benchmarking exercise with other local authorities that experience a similar level of demand as Northampton.	Open	Phil Harris	31/12/2017	TBA
Housing options-5	When determining the most appropriate Temporary Accommodation for an applicant there is a hierarchy based on price and value for money where by applicants will be placed firstly in Council stock properties and in B&B's as a last resort, depending on availability. There is currently no evidence retained to demonstrate that this process has been adhered to and staff are ensuring the most cost effective accommodations is sought in the first instance. Households living in Temporary Accommodation , particularly those who have been accepted as being owed a rehousing duty, are required to bid for accommodation on Northampton's Housing Register in order to minimise	Low	The Council's documentation will be updated to include a section where staff clarify that the cheapest BB is being used.  The Council will update documentation on the TA spreadsheet with details on when applicants last bid or when Officers last chased.	Open	Phil Harris	30/04/2017	TBA
Housing options-6	Where Temporary Accommodation is provided to applicants in the form of B&B / hotels, the Council is sometimes left with no option but to place households in accommodation that it does not normally use, using a credit card. These placements are not set up on the Council's systems, meaning that no housing benefit is claimed and the Housing Options & Advice Service is left to bear the full cost of providing the accommodation. Of the testing performed, 1 of the 25 samples was paid via credit card with no housing benefit claimed.	Low	The Council is already seeking to establish invoicing arrangements with more B&B's and to set them up on the housing IT systems, ensuring that housing benefit can be claimed and the financial burden on the Housing Options & Advice Service is reduced when this type of accommodation is procured.	Open	Phil Harris	30/06/2017	TBA

HR Recruitment	<p>The Council appoints interim staff as follows:</p> <ul style="list-style-type: none"> <li>•Guidant is the Council's dedicated recruitment agency and should be used for all temporary or interim staff. Guidant will perform checks against IR35 legislation to determine if it applies</li> <li>•Where Guidant is unable to fulfil a position, often because it is a specialist or senior management role, the Council's procurement exemption route is followed. The exemption forms consider whether IR35 legislation applies.</li> </ul> <p>Under the new IR35 legislation a worker is involved in off-payroll working when they work for a client through their own intermediary, often a personal service company (PSC), but would be an employee if they were providing their services directly. The off-payroll working rules ensure that where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and NICs as an employee.</p> <p>The Council initially assesses IR35 compliance at the start of an individual's employment, but there is no formal mechanism in place for continuing to assess whether its interim staff fall under this legislation should circumstances change. At present the Council has one employee who falls under the IR35 legislation.</p>	Low	A formal process should be developed to ensure that there are regular checks undertaken to ensure compliance with the IR 35 tax legislation requirements and adequate evidence retained to demonstrate this process.	Open	Karen Marriott, Karen Middleton	31/01/2018	The governance team are currently reviewing the process around interims and the policy and procedures are in draft stage. .
HR Recruitment	<p>Where a specialist or director level employee is required on a temporary basis and this is unable to be fulfilled by Guidant, the recruitment is made through the exemption process, and the relevant officer has to complete an exemption report. There is a section considering financial and resource implications which requires approval by legal before the whole form is approved by the Monitoring Officer or Section 151 Officer.</p> <p>There have been two employees employed using this route in the year. From the testing performed one of the exemption forms was approved retrospectively by the Legal Contracts &amp; Procurement Advisor.</p>	Low	A secondary person will be nominated to review and approve the financial and resource implications as part of the exemption process regarding interims. This will ensure that there is adequate challenge and oversight before someone is appointed. The named responsible officer is Jackie Buckler	Open	Francis Fernandes	31/01/2018	Further work with the Borough Secretary is required to include guidance on exemptions.

HR Recruitment	<p>The HR team have developed a process map to set out and formalise the process to be followed when new people are recruited. However, the process map is complicated and difficult to follow. A simplified process map or procedure notes could be developed to ensure that new team members are able to follow the process and ensure that all required steps and required controls are implemented and adhered to.</p> <p>There is no formal HR strategy regarding the recruitment</p>	Low	The HR strategy will be developed to complement the Council's overall strategy to ensure that its resource allocation and recruitment of staff is aligned with the future Council developments. A simplified process map or procedure notes could be developed to ensure that new team members are able to follow the process and ensure that all required steps and required controls are implemented and adhered to.	Open	Karen Marriott	30/04/2018	The strategy will be completed once policies and procedures have been finalised.
HR Recruitment	<p>The Council currently has 12 staff covering vacant posts on a temporary basis. Our sample of 9 individuals identified that in 6 cases the job was not currently being advertised externally to recruit on a permanent basis. There does not appear to be any control in place to ensure that advertisement of full time roles to replace interim positions is done on a timely basis.</p> <p>In two instances the market rate of the jobs is significantly</p>	Medium	Where interims are used to cover for vacant posts a process should be developed to ensure that permanent roles are advertised on a timely basis to minimise the use of interim staff.	Open	Karen Marriott	30/04/2018	The governance team are currently reviewing the process around interims and procedures are in draft stage. Further work with the Borough Secretary is required to include guidance on exemptions.



Appendices: Nil



**NORTHAMPTON**  
BOROUGH COUNCIL

## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>Position Statement on Vacant Posts and Interim/Agency Staff</b>
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**AGENDA STATUS: PUBLIC**

<b>Audit Committee Meeting Date:</b>	18 <sup>th</sup> June 18
<b>Policy Document:</b>	No
<b>Directorate:</b>	Finance Directorate LGSS
<b>Accountable Cabinet Member:</b>	Cllr Brandon Eldred

### 1. Purpose

- 1.1 To present Committee with a position statement as to the numbers of staff vacancies and interims/agency staff engaged.

### 2. Recommendations

- 2.1 To consider the contents of this finance report.
- 2.2 To consider whether Committee requires any additional information in order to fulfil its governance role.
- 2.3 To note that whilst efforts are being made to reduce the number of agency and interim staff at present. As NBC heads toward a Unitary environment, there may be a need to increase the use of agency and interim staff.

### 3. Issues and Choices

#### 3.1 Report Background

- 3.1.1 A Finance report is presented to Cabinet quarterly (including the outturn report) which are then brought to the first available Audit Committee meeting following their production.
- 3.1.2 At it's meeting on the 14 March 2016 Audit Committee raised a query requesting further information on:

- The number of interim/agency staff and vacant positions currently held at the Council

### 3.2 Interim/Agency Staff and Vacant Positions

3.2.1 The total number of interim and agency staff engaged and those which are covering vacant posts in the establishment.

Directorate	February 2016	January 2018		February 2018		YTD Expenditure
	Covering vacant posts	Total	Covering vacant posts	Total	Covering vacant posts	(£000)
Borough Secretary	9	7	7	7	7	422
Director of Customers & Communities	*13	5	1	4	1	148
Director of Regeneration, Enterprise & Planning	13	8	2	8	2	627
Housing and Well Being	4	7	3	7	3	386
<b>Total</b>	<b>39</b>	<b>27</b>	<b>13</b>	<b>26</b>	<b>13</b>	<b>1,583</b>

**Note :** \* 5 Posts removed from total relating to Enterprise Contract as costs are being recovered through the contract.

3.2.2 The number of interim and agency staff engaged and the length of engagement is summarised in the table below.

Directorate	February 2018	Length of time engaged				
		<1 month	1-3 months	3-6 months	6-12 months	12+ months
Borough Secretary	7	-	-	3	3	1
Director of Customers & Communities	4	1	3	-	-	-
Director of Regeneration, Enterprise & Planning	8	-	2	2	-	4
Housing and Wellbeing	7	-	1	1	-	5
<b>Total</b>	<b>26</b>	<b>1</b>	<b>6</b>	<b>6</b>	<b>3</b>	<b>10</b>

3.2.3 The number of staff vacancies is summarised in the table below.

Directorate	Total Posts	Vacancies (March 2016)	Vacancies (Jan 2018)	Vacancies (Feb 2018)	Recruiting to	Covered by Interims/ Agency
<b>Borough Secretary</b>	<b>55</b>	<b>11</b>	<b>14</b>	<b>14</b>	<b>2</b>	<b>7</b>
<b>Director of Customers &amp; Communities</b>	<b>176</b>	<b>23</b>	<b>11</b>	<b>14</b>	<b>10</b>	<b>1</b>
<b>Director of Regeneration, Enterprise &amp; Planning</b>	<b>60</b>	<b>13</b>	<b>6</b>	<b>6</b>	<b>2</b>	<b>2</b>
<b>Housing and Well Being</b>	<b>40</b>	<b>5</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>3</b>
<b>Total</b>	<b>331</b>	<b>52</b>	<b>37</b>	<b>36</b>	<b>19</b>	<b>13</b>

3.2.1 Of the 14 vacancies in the Directorate of Borough Secretary, the Chief Executive and the Political Assistant roles has now been filled. Start dates were March/April 2018.

3.2.2 Of the 14 vacancies in the Directorate of Customers & Communities, 10 are in the process of being recruited to and 1 is being covered by interim/agency staff who has been in place for 2 months. Two of the vacancies in Facilities Management are for apprentice roles which are being advertised via Qube, the new supplier. The Post Room vacancy is not being recruited to at the moment as assessment of the roll out of Electronic Records Management across the organisation takes place. 1 agency staff member is covering holiday for cleaners and porters and 1 is covering holiday and paternity leave for the Post Room. The interim staff member working within Town Centre Operations is also covering someone on long term sickness. The vacancies in the other areas are being covered by existing staff working additional hours.

3.2.3 Of the 6 vacancies within the Directorate of Regeneration, Enterprise and Planning, two posts have been unsuccessfully recruited to on several occasions and one post has been successfully recruited to, with a starting date of early April 2018. All vacancies are under review pending the medium term resourcing strategy.

3.2.4 Of the 5 vacant positions in the Housing and Wellbeing Service, 4 are in the process of being recruited to and 1 has successfully been recruited to. Of the 7 interims, 3 are covering vacant posts; 2 are providing the Housing standards Team with extra capacity to identify, license and regulate HMOs; 1 is providing maternity leave cover; 1 is providing the Homelessness Team with extra support. Following agreement of the Business Case for the expansion of the Housing Enforcement Team, 2 of the interims above, have been successfully appointed to 2 posts within the Housing Enforcement Team – start date for both was 1<sup>st</sup> April 2018.

### **3.3 Choices (Options)**

3.3.1 None

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

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### **4.1 Policy**

4.1.1 There are no specific policy implications arising from this report.

### **4.2 Resources and Risk**

4.2.1 Ongoing monitoring of the Council's budget and capital programme enables early intervention and appropriate remedial action, thus mitigating risks to the Council's financial viability and to its reputation.

4.2.2 There is a risk now that the Northamptonshire area is destined to deliver a unitary solution that it will become increasingly difficult to attract recruit new staff, with an added risk that as time progresses, some key staff may seek to move on. Therefore there may be an increase in agency and interim staff both to deliver core activities, but also provide backfill if officers are seconded to unitary projects.

### **4.3 Legal**

4.3.1 There are no specific legal implications arising from this report.

### **4.4 Equality**

4.4.1 There are no specific equalities implications arising from this report.

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

4.5.1 None at this stage.

### **4.6 How the Proposals deliver Priority Outcomes**

4.6.1 Regular reporting of the Council's financial position helps to ensure the proper stewardship of the Council's resources. Active financial management contributes to the delivery of value for money services, enabling public money to be used to maximum benefit.

### **4.7 Other Implications**

4.7.1 The responsibility for determining whether agency/interim workers are deemed employees for tax purposes has been that of public sector bodies from April 2017. This will mean that the Council has to assess all individuals who are doing work for the authority against a number of criteria as indicated by HMRC. This is a change from the previous position where the individual has to make the assessment as to whether they are what is known as 'IR35' compliant.

4.7.2 Where the Council determines that individuals are inside IR35 then they will have to notify those individuals and the agency that represents them (in the case of NBC this is mostly Guidant) so that personal tax can be deducted at

source through a PAYE system rather than leaving it to the individual as either an employee of their own limited company or as a self employed person to calculate and pay the relevant tax.

- 4.7.3 Management have been working with the Council's preferred supplier Guidant and all other agencies to ensure that the new responsibilities are met. All agency and temporary contracts as at April 2017 were reviewed against the criteria to ensure the authority was complying with the change in responsibility.
- 4.7.4 The change in responsibility of determining IR35 compliance to the public sector has had an impact on the interim/consultancy market, and as a result the Council will need to develop its reporting to future Audit Committees.

## **5. Background Papers**

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None

**Stuart McGregor**  
**Chief Finance Officer, Telephone 01604 366521**

Appendices:  
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**NORTHAMPTON**  
BOROUGH COUNCIL

## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>Statement of Accounts 2016/17 Progress Report</b>
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**AGENDA STATUS: PUBLIC**

<b>Audit Committee Meeting Date:</b>	18 <sup>th</sup> June 2018
<b>Policy Document:</b>	No
<b>Directorate:</b>	LGSS Finance
<b>Accountable Cabinet Member:</b>	Cllr Brandon Eldred

### 1. Purpose

1.1 To inform the Audit Committee about the work undertaken by the Finance team, in conjunction with the external auditors KPMG, since the 15<sup>th</sup> January 2018 Audit Committee towards enabling KPMG to issue their audit opinion on the 2016/17 Statement of Accounts.

### 2. Recommendations

2.1 It is recommended that the Audit Committee note the progress towards enabling KPMG to issue their external audit opinion on the 2016/17 accounts.

### 3. Issues and Choices

#### 3.1 Report Background

3.1.1 On 27<sup>th</sup> September, Audit Committee gave approval for the Chair of Audit Committee to sign the 2016/17 Statement of Accounts, subject to the amendments that were presented to the meeting.

3.1.2 At the same meeting, the external auditor (KPMG) presented their draft annual ISA260 report, and advised that they were still assessing the amendments that the Audit Committee had approved; whilst they had agreed the approach, the final decision on whether they would be able to issue an audit opinion was still subject to internal quality assurance. On 29 September,

KPMG wrote to the Council's Chief Finance Officer to advise that, following internal review, it would not be possible to issue an audit opinion before the 30<sup>th</sup> September statutory deadline. KPMG identified three specific areas of concern, all associated with valuations of Property, Plant and Equipment (PPE):

- Valuations of Social Housing Assets (Council Dwellings)
- Valuations of 'Other Land and Buildings' and Investment Properties
- Methodology applied in componentising assets

### **3.2 Work undertaken between Audit Committee on 27<sup>th</sup> September 2017 and Audit Committee on 15<sup>th</sup> January 2018**

3.2.1 A progress report was delivered on 15<sup>th</sup> January 2018 that provided the Committee with details of completed work and the actions it was then assumed were needed to complete the amendments to the PPE valuations. Commitments were made by both NBC and the External Auditor to deliver the revised accounts by 31<sup>st</sup> January 2018 and a timetable for completion was presented at the meeting.

### **3.3 Work undertaken since Audit Committee on 15<sup>th</sup> January 2018**

3.3.1 Unfortunately, however, the final completion steps uncovered further issues and, in order to provide a resolution, detailed investigation has been required and this has resulted in further delays to the sign-off process. The key areas of concern related to:

#### **3.3.2 Mapping of the trial balance to the Statement of Accounts**

The complex amendments identified from the work on PPE resulted in a large number of changes throughout the accounts. In feeding these transactions through the financial system, queries arose in relation to the mapping of ledger codes to the primary statements. Consequently, there has been a need to confirm, at the most detailed level, that the Statement of Accounts document accurately reflects the contents of the Council's financial system. Although this step was not undertaken for the original version, the Finance team agreed with KPMG that this assurance was required.

3.3.3 In order to prove this complex task, over 6,400 codes were manually mapped to the Statement of Accounts and, with the exception of four highly trivial codes amounting to £6k, all were posted correctly. The result of this exercise was reported to KPMG on 26<sup>th</sup> April 2018 and a final response is currently outstanding.

#### **3.3.4 The valuation of Council Dwellings at 1<sup>st</sup> April 2016**

Further queries were also raised regarding the valuations used for the 2016/17 1<sup>st</sup> April 2016 revaluations, which are used to calculate depreciation and disposal figures charged throughout the year. These charges were previously considered materially correct.

3.3.5 Analysis identified that an incorrect social discount factor was originally applied to the 31<sup>st</sup> March 2017 closing valuations and that this was subsequently corrected in the accounts presented in September. The

discount factor was also incorrect for the 1<sup>st</sup> April 2016 valuations and no such correction was applied. This has resulted in incorrect depreciation and disposal figures being charged throughout the year.

- 3.3.6 Identifying the impact of this error on the in-year charges has required a detailed interrogation of the Fixed Asset system. The objective has been to provide a materially accurate estimate of what these charges should have been and this work was presented to KPMG on 25<sup>th</sup> May 2018 for their review and agreement. The consequent adjustments to the Statement of Accounts will affect the Primary Statements, a significant number of notes and the Group Accounts, but does not impact on the ‘tax payer funds’.

### **3.4 Completing 2016/17 Statement of Accounts**

- 3.4.1 In addition to these key issues, and the need for KPMG to complete their closing review, there are also a small number of minor queries for which responses were provided in January. The progress against completion of all outstanding tasks is being monitored by the Chief Executive, Interim Chief Finance Officer and External Audit Director through a queries tracker. The Portfolio Officer for Finance is also provided a fortnightly review of progress by LGSS Finance.

- 3.4.2 There is a commitment from both the Council and KPMG to complete all outstanding work and sign-off the 2016/17 Statement of Accounts by the next Audit Committee on 30<sup>th</sup> July 2018. This will require the Financial Statements, the Annual Governance Statement and Letter of Representation to be re-presented and signed.

### **3.5 2016/17 Draft ISA260 External Audit Report**

- 3.5.1 In September 2017, the Finance team and KPMG jointly reviewed the ISA260 draft report to ensure its factual accuracy. The Council accepted the recommendations made and is working in conjunction with KPMG to make improvements to the areas highlighted. KPMG will provide an addendum to the ISA260 report once the 2016/17 audit is finalised and formal management responses will again be provided.

- 3.5.2 Colleagues across the Council have started to implement an ISA260 action plan that reviews progress against the recommendations. The plan will be reviewed every quarter and, although work continues on the 2016/17 accounts, progress has been made in a number of areas.

- 3.5.3 A ‘lessons-learned’ document is also being maintained at a more detailed level, in order to ensure that issues from the 2016/17 accounts are not replicated in the future (see **appendix 1**).



### **3.6 Preparation of 2017/18 Statement of Accounts**

- 3.6.1 Although the work required to deliver the 2017/18 Statement of Accounts is underway, progress is restricted by the level of work still being delivered for 2016/17. Where tasks are not affected by the work on PPE they are being actively completed by colleagues not involved on 2016/17.
- 3.6.2 The Interim Chief Finance Officer has informed the External Auditor that, as the 2017/18 Statement of Accounts will not be available by the statutory deadline, a revised date is required. KPMG have agreed that the external audit of the 2017/18 Accounts will be undertaken in September 2018, allowing approval and sign-off as soon as possible thereafter. Achieving this revised timetable is dependent, however, on the completion of the 2016/17 accounts and their sign-off by the 30<sup>th</sup> July Audit Committee.

### **3.7 Choices (Options)**

- 3.7.1 Although this report is just for noting, Audit Committee have the opportunity to ask questions directly to Officers on issues associated with the completion of the statutory accounts for 2016/17 and 2017/18.

## **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 is diverting significant staff resources in order to ensure that KPMG are provided with the assurance required to enable them to give their opinion on the 2016/17 statement of accounts as soon as is practicable. This has had a knock-on impact on the ability to progress the closure of the 2017/18 accounts.
- 4.2.2 However, any additional time spent on 2016/17 accounts has resulted in issues being identified and mitigated in advance of the 2017/18 accounts process.
- 4.2.3 Where improvements could not be made within the financial year 2017-18, the lessons learnt are being actioned during 2018-19

### **4.3 Legal**

- 4.3.1 The actions proposed in this report will enable the Council to meet its statutory requirements of finalising its 2016/17 Statement of Accounts, signed and with an external audit opinion.

### **4.4 Equality**

4.4.1 Not applicable.

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

4.5.1 External Auditors, KPMG

#### **4.6 Other Implications**

4.6.1 None.

### **5. Background Papers**

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#### **5.1 Audit Committee 27<sup>th</sup> September 2017**

- Item 6: KPMG ISA 260 Report
- Item 7: Final Statement of Accounts

**5.2** Letter to Audit Committee members advising the KPMG late audit opinion letter sent in October 2017.

#### **5.2 Audit Committee 13<sup>th</sup> November 2017**

- Item 6: Statement of Accounts Update

#### **5.3 Audit Committee 15<sup>th</sup> January 2018**

- Item 7: Update on signing of the 2016/17 accounts

**Amy Eyles**  
**Strategic Finance Business Partner - 01604 367514**

**Stuart McGregor**  
**Chief Finance Officer - 01604 366521**

**Lesson Learned from 16/17**

What	Area	Done for 17/18
The overall standard of working papers needs to improve. Many are produced to the required standard and all must meet this in the future. Guidance has been issued regarding content and clarity. Evidence of bad practice has also been issued. KPMG: <i>"There have been numerous emails...and we reported in our ISA260 both this year and last that (some) working papers...do not show the audit trail and are not of the standard we would expect."</i>	Integrated closedown team	Yes - guidance on characteristics and content produced and circulated. QA process has been reinstated from 15/16, all working papers subject to 2 reviews - 1 by a suitable reviewer for accuracy/content and 1 for QA purposes, internal consistency, completeness.
The storage of the working papers, within a shared directory, became chaotic because the link between the working paper references and the Statement was broken. The purpose of the working papers was not always immediately obvious, making information hard to find.	Integrated closedown team	Yes - Reverted to 2015/16 referencing convention, which mirrors SoA and maintain carefully. All working papers have a preparer, reviewer and QA officer named on the front sheet.
Responsiveness - the audit team do not just require clear, referenced information. They need quick and complete answers to any follow-up questions. During the audit period this has to be the highest priority.	All	This needs communication, guidance and constant reinforcement. The head of the integrated finance team has emailed out to all LGSS Heads of Service to reinforce this message. CFO to do the same at NBC
Absolute clarity about their requirements must be obtained from KPMG as queries are raised - what is the concern? What is needed in order to clear that concern? Significant delay has been experienced because the wrong data has been provided. This was especially true in the overall datasets provided and for payroll reports.	All	All queries will be channelled through one contact, and passed through QA process before being passed onto KPMG.
The progress through the audit has been slowed by the availability of data held in assets team. This has taken some time to compile and, for the future should include verified valuation reports and associated evidence, condition surveys, the Asset Management Plan and any directly related documentation. All of this should be immediately to hand. KPMG: <i>"Neither the valuation documents you attached nor the copy of title from the land registry agree to the fixed asset register"</i>	Assets	Some good progress has been made, with clear valuation instructions issued and valuation reports received and stored. To be built upon for 18/19 process
In order to aid clarity, a full review of documentation and process notes for assets and valuations needs to be undertaken, including PwC internal audit review	Assets/ governance	New processes have been applied, reflecting good practice, and these need to be clearly documented
When the valuation of housing stock is being arranged, more regard needs to be paid to ensure that tenants are aware of the timing and purpose of the valuation process. This will avoid delays and uncertainty. We should be sending out letters to tenants to advise of the valuers visit, giving at least one weeks notice.	Assets	For 18/19
A full review of accounting policies needs to be undertaken, so as to ensure that they are clear and fit for purpose - meeting the specific needs of the Council.	Integrated closedown team	For 18/19
All year end steps, including those identified as being absent from the 2016/17 process, need to be on either the schedule of working paper requirements or the closedown timetable.	Integrated closedown team	Orphan codes and TB mapping completed - if any others are identified, will be identified as part of accounts closure steps which has been added to the working paper requirement listing.
The bank and cash reconciliation process did not identify all accounting / timing issues occurring. These processes need to be reviewed and corrected.	Integrated closedown team	For 18/19 - but throughout the financial year.
There is still a peak of activity at the year-end, with the number of transactions rising significantly. Better planning would reduce this peak and remove some pressure from the transactional teams at year-end, allowing them to focus on their year-end tasks.	Integrated closedown team	Earlier notice to Services and Budget Holders to reduce non-urgent financial transactions near Year End - to be issued for 2018/19 close, early in Q4
Further to point 15, many 'year-end' accounting activities can be completed earlier in the financial year. This opportunity should be maximised.	Integrated closedown team	Lists of potential tasks have been created for review by closedown colleagues. This will be a key change for 2018/19.

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Appendices: Nil



**NORTHAMPTON**  
BOROUGH COUNCIL

## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>Treasury Management Amendment</b>
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**AGENDA STATUS: PUBLIC**

<b>Audit Committee Meeting Date:</b>	18 <sup>th</sup> June 18
<b>Policy Document:</b>	No
<b>Directorate:</b>	Finance Directorate
<b>Accountable Cabinet Member:</b>	Cllr Brandon Eldred

### 1. Purpose

- 1.1 To present Committee with a proposed amendment to the NBC Treasury Management Policy.

### 2. Recommendations

- 2.1 To consider the contents of this finance treasury management policy report.
- 2.2 That Audit Committee recommends Council to approve the use of property investments, direct and indirect, to achieve improvements in Treasury yields, up to a maximum investment value of £15.000M, as per 3.1.3 and 3.1.4.
- 2.3 That Audit Committee recommends Council to approve the delegated powers as set out in paragraphs 3.1.3 and 3.1.4

### 3. Issues and Choices

#### 3.1 Report Background

- 3.1.1 The funds are all in 'cash' institutions so in the main, achieving less than 0.5% in interest, these amendments seek to utilise the cash held in specific reserves as part of the resources available to the council to deliver VfM and increase 'income' from the Treasury service.
- 3.1.2 The Council currently has not identified the ability to invest in indirect property funds in its Treasury Management options, but this is available to Local

Authorities. (In particular through CCLA which has a special status allowing for Treasury Investments by Local Authorities).

- 3.1.3 The Council also does not currently have the ability, under its Treasury Management options to invest directly in property, for Treasury purposes (as opposed to regeneration or capital investment). The subtle difference is that the Treasury investment in property must be of a nature that allows for liquidation and achieves an agreed yield, these properties might not be within the NBC boundary as they will be seen as medium term acquisitions for yield, as opposed to holding cash in banks). Removing this distinction would also assist in providing a more balanced portfolio which balances returns with the Council's duty to maintain appropriate security and liquidity of public monies
- 3.1.4 Delegated power is sought to widen the Council's ability to invest in property funds, where appropriate circumstances arise. Independent external advice will be sought in respect of suitability, viability and the ability to 'liquidate' such investments. As these will be Treasury Property Investments, they may be in property assets outside of the Borough's geographic area, which will allow for an element of spreading exposure and risk.

### **3.2 Interest Rate Forecasts**

- 3.2.1 The Council uses Link Asset Services (ex-Capita Assets) as a treasury adviser to the Council who, as part of their service, assist the Council in formulating a view on interest rates. LAS' view is that interest rates are likely to remain static for at least one year, and that increases beyond this would be incremental. Although there are inflationary pressures, there is also uncertainty as to how Brexit negotiations will affect the wider economy. This view is supported by forecasts obtained from the Centre for Economics and Business Research, who anticipate no base rate increases until the end of 2018 and then it is likely to be graduated. This means the council is unlikely to achieve 1.0% through deposits until 2020/21.

### **3.3 Treasury Investment Proposals**

- 3.3.1 Whilst the Strategy and Policies in respect of WDC Treasury Management are set out in the documents approved by Full Council, the actual delegation/approval to enact these transactions requires clarification. Therefore, to ensure that the use of these investments is appropriately considered and approved, the following seeks to clarify the approval/authorisation process.
- 3.3.2 Audit Committee is therefore asked to consider and recommend to Council.
  - a) To approve investments of up to £7.000M, in one or more indirect property funds and to delegate power to the Section 151 Officer, after consultation with the Portfolio Holder for Finance, and after receipt of advice from LAS with due regard to security and liquidity, to approve such investments subject to the limitation that funds to be invested in would be restricted to those that are already utilised by one or more other Local Authorities and offering in excess of 4% return/yield at the time that the investment is placed.
  - b) To approve the direct investment of up to £8.000M in commercial property for Treasury Yield purposes only, and to delegate authority to the Chief Executive, in consultation with the Section 151 Officer and the Head of

Assets/Regeneration after consultation with the Leader and the Portfolio Holders for Finance and Assets to approve such acquisitions and disposals.

- 3.3.3 Investing up to £15.000M and achieving just 4.00% against the current average of c0.50% could improve our Treasury income by c£0.500M. It must be noted that from an accounting presentation view, these funds will not appear 'spent' in the reserve balances, as it is a cash/treasury approach. This approach prevents revenue v capital issues arising.
- 3.3.4 The Reserves supported by cash that will be used for such investments will include the General Fund and funds held in the collection fund for Business Rates appeals of these are underpinned by material cash holdings and not anticipated to be needed for traditional Capital Investment purposes.

### **3.4 Choices (Options)**

- 3.3.5 Audit Committee has the choice to accept these proposals and submit a recommendation to Council to amend the NBC Treasury Management Policy/Strategy, or it can choose not to accept them, acknowledging the opportunity to increase income by c£0.500M would be foregone.

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

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### **4.1 Policy**

- 4.1.1 The policy implications are contained in the body of the report.

### **4.2 Resources and Risk**

- 4.2.1 NBC currently places all treasury assets (cash) in standard bank institutions. Whilst investing in alternative Treasury vehicles represents some risk, it has to be balanced with the fact that investments in banks are only underwritten by Government up to £85,000 (since 2016).
- 4.2.2 As with all investments there is an element of risk, but this will be mitigated to ensure that whilst a good level of yield is sought, it will not be at the detriment of security and liquidity.

### **4.3 Legal**

- 4.3.1 There are no specific legal implications arising from this report.

### **4.4 Equality**

- 4.4.1 There are no specific equalities implications arising from this report.

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

- 4.5.1 None at this stage.

### **4.6 How the Proposals deliver Priority Outcomes**

- 4.6.1 Regular reporting of the Council's financial position helps to ensure the proper stewardship of the Council's resources. Active financial management contributes to the delivery of value for money services, enabling public money to be used to maximum benefit.

#### **4.7 Other Implications**

- 4.7.1 None identified.

### **5. Background Papers**

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Northampton Borough Council – Treasury Management Strategy

General Fund Revenue Budget and Capital Programme 2018/19 and Medium Term Financial Plan 2018/19 – 2022/23, Appendix 5 28 February 2018

**Stuart McGregor**  
**Chief Finance Officer, Telephone 01604 366521**

**The Local Authorities'  
Property Fund**  
Scheme Information

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# Scheme Information

## The Local Authorities' Property Fund

Effective from May 2018

Issued by CCLA Fund Managers Limited

This Scheme Information summarises the terms and conditions on which the Fund operates. For full information as to the terms, reference should be made to the Fund's Scheme. Copies are available on request from the Manager.

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## Definitions

**Administrator** means CCLA Investment Management Limited or such other successor entity appointed as administrator by the Manager from time to time.

**AIF** means an alternative investment fund.

**AIFM** means an alternative investment fund manager and has the same meaning as in the glossary to the FCA Regulations.

**AIFMD Legislation** means the Alternative Investment Fund Managers Directive 2011/61 EU AIFMD, the Alternative Investment Fund Managers Regulations 2013 and the Commission Delegated Regulation (EU) 231/2013.

**Annual Report** means the annual report of the Fund prepared by the Trustee.

**Council** means the members of the Trustee that direct the activities of the Trustee.

**Data Protection Legislation** means Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, or any successor legislations thereto, and any associated codes, regulation or guidance (as may be amended or replaced from time to time) and any related regulations and guidance and all other laws concerning the processing of data relating to living persons.

**Depository** means HSBC Bank plc, or such other entity as may be appointed by the Trustee and the Manager from time to time.

**Depository Services Agreement** means the agreement dated 22 July 2014, between the Depository, the Trustee and the Manager appointing the Depository and as amended, supplemented or replaced from time to time.

**Deposited Property** means any Fund Property in respect of which the Trustee has delegated custody to the Depository in order to comply with the AIFMD Legislation, those assets being financial instruments under the AIFMD Legislation, which are required to be held in custody pursuant to the AIFMD Legislation.

**Exemption Order** means Part IV of the Schedule to the Financial Services and Markets Act 2000 (Exemption) Order 2001.

**External Property Valuer** means such valuer or valuers as the Manager shall select from time to time.

**FCA** means the Financial Conduct Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS or any successor regulatory body.

**FCA Regulations** means the Handbook of Rules and Guidance issued by the FCA, as amended or replaced from time to time.

**FSMA 2000** means the Financial Services and Markets Act 2000.

**Fund** means the Local Authorities' Property Fund, established under the Scheme and consisting of the Fund Property held on trust by the Trustee.

**Fund Property** means the assets, investments and property of the Fund from time to time.

**Investment Management Agreement** means the agreement dated 22 July 2014 between the Manager and the Investment Manager delegating the administration and portfolio management of the Fund Property to the Investment Manager and the Administrator and as amended, supplemented or replaced from time to time.

**Investment Manager** means CCLA Investment Management Limited.

**Local Authority** means Local authority, as defined in chapter 3 of the Local Government Act 2003.

**Manager** means CCLA Fund Managers Limited or such successor body corporate appointed Manager pursuant to the Scheme.

**MiFID II** means Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and includes where applicable reference to any implementing or supporting Regulations, Directives, or other legislative measures.

**Money Laundering Regulations** means The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 as may be amended, updated or replaced from time to time.

**PRA** means the Prudential Regulation Authority of Threadneedle Street, London EC2R 8AH or any successor regulatory body.

**Register** means the register of Unitholders in the Fund maintained by the Registrar on behalf of the Trustee.

**Registrar** means CCLA Investment Management Limited appointed by the Trustee pursuant to a registrar agreement dated 1 October 1998 for the purpose of maintaining the Register.

**Regulatory Rules** means the AIFMD Legislation, FCA Regulations and MiFID II as may be applicable.

**Scheme** means the scheme approved by HM Treasury under Section 11 Trustee Investments Act 1961 together with the trust deed dated 6 April 1972 establishing the Fund, as amended by a supplemental trust deed dated 13 September 1978.

**Scheme Information** means these terms and conditions of the Fund as amended or replaced from time to time.

**Trustee** means the Local Authorities' Mutual Investment Trust.

**Unitholder** means a Local Authority to which Units in the Fund have been, and continue to be, allocated.

**Units** means Units in the Fund, or where the context indicates, an investment which represents the rights or interests (howsoever decided) of the participants in a collective investment scheme.

**Valuation Date** means the end of each calendar month.

References to legislation, statutes or FCA Regulations in this Scheme Information are references to such legislation, statutes or FCA Regulations as amended, updated or replaced from time to time.

## The Fund

The Fund is an open-ended, unregulated collective investment scheme established under a Scheme. The Fund is an AIF and is managed by the Manager as an AIFM in accordance with the FCA Regulations and the AIFMD Legislation.

## Investment Objectives

The Fund aims to provide investors with a high level of income and long-term capital appreciation.

## Investment Policy

The Fund is an actively managed, diversified portfolio of UK commercial property. It will principally invest in UK commercial properties, but may invest in other assets.

## Benchmark

IPD™ Other Balanced Property Fund Index.

## Target Investors

The Fund is suitable for the long-term funds of any local authority seeking exposure to UK commercial property. The Fund is targeted at investors with an understanding or previous history of investing in similar types of fund, with appropriate levels of risk tolerance and ability to bear loss. Please note that the Manager is not required to assess the suitability of the Fund against each investor.

Our investors must be able to be categorised as professional clients.

## Investment Powers

The Fund's powers of investment are not restricted either to particular types of property, or subject to the consent of HM Treasury, to specific parts of the world, but it is the present policy to confine investment to freehold and leasehold commercial and industrial property in the United Kingdom.

The Fund is permitted to finance developments of, or improvements to, both freehold and leasehold property or purchase a right or interest in, or over, freehold or leasehold land, or borrow for the purpose of gearing against the Fund Property, provided that the aggregate borrowing does not exceed 25% of the value of the Fund Property on any quarterly valuation date. With the prior written approval of the Trustee, the Manager may borrow for any purpose set out above up to the limit of 50% of the net asset value of the Fund.

The total amount of borrowing and any change to the level of the maximum borrowing permitted by the Manager will be disclosed to the Unitholders in the Annual Report.

## Investment Restrictions

The Fund will maintain a suitable spread between different types of property and geographical location. Importance will be attached to location, standard of construction and quality of covenant with lease terms preferably embodying upwards only rent reviews at intervals of not more than five years.

An amendment to the investment objective or policy of the Fund must be approved by HM Treasury and sanctioned by a special resolution of the Trustee.

## Performance Benchmark

The performance benchmark for the Fund is the Balanced Property Unit Trust Index compiled and calculated by Investment Property Databank (IPD) and published by HSBC and the Association of Real Estate Funds (AREF), calculated on a net asset value basis; or such other performance benchmark as the Manager may agree.

## Leverage (as defined by the AIFMD Legislation)

This section explains in what circumstances and how the Manager may use leverage as defined by AIFMD Legislation in respect of the Fund and the maximum level of leverage permitted.

Leverage means any method by which the Fund increases its exposure whether through borrowing cash or securities or any other means. The sources of leverage which can be used when managing the Fund include:

- cash borrowing.

Leverage will be used to purchase direct property and may also be used to meet redemption requests when appropriate.

The Manager is required to calculate and monitor the level of leverage of the Fund. Leverage is expressed as a ratio between the exposure of the Fund and the Fund's net asset value (Exposure/NAV). The exposure of the Fund shall be calculated in accordance with the commitment method (Commitment Method) and the gross method (Gross Method), as set out below.

Under the Gross Method, the exposure of Fund is calculated as follows:

- 1 include the sum of all assets purchased, plus the absolute value of all liabilities;
- 2 exclude the value of cash and cash equivalents which are highly liquid investments held in the base currency of the Fund, that are:
  - readily convertible to a known amount of cash;
  - are subject to an insignificant risk of change in value; and
  - provide a return no greater than the rate of a three month high quality government bond;
- 3 derivative instruments are converted into the equivalent position in their underlying assets;
- 4 exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known;
- 5 include exposure resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of the cash borrowed;

6 include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements.

Under the Commitment Method, the exposure of a Fund is calculated in the same way as under the Gross Method; however, the exposure of derivative or security positions employed in hedging and netting arrangements are not included in this calculation, provided certain conditions are met.

The maximum level of leverage permitted in respect of the Fund is the same regardless of which calculation method is used as no derivative instruments are used in the fund;  
Gross Method: 2.00.

Commitment Method: 2.00.

Further information regarding these different Leverage calculation methods can be found in AIFMD Legislation and the Risk Management Process Document, which is available upon request from the Manager. The total amount of Leverage employed by the Fund will be disclosed in the Fund's Annual Report.

It is not intended that the Depositary or any sub-custodian shall be entitled to re-use for its own benefit and of the Fund's Property it has been entrusted with.

### **Risks associated with Leverage**

The risks associated with Leverage are that a failure by the Fund to perform its obligations under the terms of any loan would permit the lenders to demand early repayment of the finance and to realise any security they have over the Fund's assets.

### **The Trustee**

The Trustee is the trustee of the Fund under the Scheme. The Trustee is a company incorporated under the Companies Act 1948, limited by guarantee and not having a share capital. The Trustee is managed through a Council, the current members of which are detailed in Appendix 1.

The Exemption Order provides that the Trustee of the Fund is exempt from the general prohibition in respect of operating a collective investment scheme. In consequence, the Trustee and its members are not required to be authorised by the FCA or the PRA.

The Trustee is controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and by the Trustee to represent Unitholders.

The Trustee is responsible, for among other things, the custody and control of the Fund Property.

## The Manager

CCLA Fund Managers Limited is the appointed AIFM of the Fund. The Manager is a limited liability company incorporated in England and Wales, whose address and details are shown in Appendix 1 of this document.

The Manager is authorised and regulated by the Financial Conduct Authority in the conduct of investment business in the United Kingdom and is entered on the FCA's register under number 611707. The Manager has permission from the FCA to act as a full scope AIFM. The only business activity of the Manager is the management of alternative investment funds as an AIFM. The ultimate holding company of the Manager is CCLA Investment Management Limited, a company incorporated in England and Wales.

The Manager is appointed by the Trustee as the AIFM of the Fund and is responsible for the investment management of the Fund, which includes portfolio management and risk management, and the administration and marketing of the Fund. The Manager's appointment may be terminated by the Trustees serving written notice on the Manager.

Subject to the FCA Regulations and AIFMD Legislation the Manager may delegate (and authorise its delegate to sub-delegate) its duties as AIFM. Under such authority the Manager has delegated the portfolio management of the Fund Property and the administration of the Fund to the Investment Manager and the Administrator under the Investment Management Agreement.

### **Duties of the Manager**

The Manager is responsible for all the investment management and administration services in relation to the Fund. These are:

- the day-to-day management of the Fund including power to buy and sell investments and to operate bank accounts and to borrow;
- the preparation of any valuations or other calculations set out in this Scheme Information;
- the receipt of contributions and the satisfaction of withdrawals;
- the decision as to whether any particular asset is to be accepted as a contribution;
- the keeping of such accounts as the Trustee may require;
- company secretarial services to the Trustee; and
- any matters incidental to the above matters.

The Manager is also responsible for the risk management of the Fund.

No warranty is given by the Manager as to the performance or profitability of the Fund (or any part of it) or that the investment objectives of the Fund will be successfully accomplished.



## Investment Manager

The Investment Manager is CCLA Investment Management Limited, a limited liability company registered in England, company No. 2183088. The Investment Manager is authorised and regulated by the Financial Conduct Authority in the conduct of its investment business and has permission that covers the provision of investment advice to a local authority about Units in the Fund. The management of the properties held by the Fund itself is outside the scope of FSMA.

The Investment Manager has been appointed by the Manager under the Investment Management Agreement to manage the Fund Property.

## The Administrator

The Manager has appointed the Administrator to carry out certain administrative tasks including the preparation of valuation and other reports together with marketing activities on behalf of the Fund. The Administrator has been appointed under the Investment Management Agreement with the Manager and the Manager meets the fees of the Administrator from the Annual Management Charge.

The Administrator provides the Manager with all administrative services necessary for the management of the Fund. These include:

- the valuation of the Fund Property in conjunction with an appointed External Property Valuer;
- the issue and redemption of Units in the Funds; and
- the payment of dividends and the maintenance of the accounts of the Fund.

The Fund operates on a financial year to 31 March.

## The Depositary

The Trustee and the Manager have appointed HSBC Bank plc as the depositary of the Fund under the Depositary Services Agreement.

The Depositary is a public limited company incorporated in England and Wales with company registration number 00014259 with its registered office at 8 Canada Square, London E14 5HQ.

The Depositary is authorised by the Prudential Regulation Authority and is regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the conduct of its investment business in the United Kingdom.

### **Terms of appointment of the Depositary**

The Depositary has certain duties under the AIFMD Legislation which are to provide safekeeping, oversight, cash monitoring and asset verification services in respect of the Fund Property in accordance with the provisions of the applicable FCA Regulations, the AIFMD Legislation and the Scheme.

In accordance with the FCA Regulations and the AIFMD Legislation, the Depositary may, pursuant to the Depositary Services Agreement, delegate the provision of custody services in relation to the Fund. Safekeeping functions may be delegated to one or more sub-custodians on the terms set out in the Depositary Services Agreement and the Depositary will act with reasonable skill, care and diligence in the discharge of its duties. The liability of the Depositary as depositary under the Depositary Services Agreement shall not be affected by the fact that it has entrusted to a third party some or all of the assets in its safekeeping.

The Depositary has not currently delegated the provision of custody services and therefore the Depositary acts as custodian of any Deposited Property.

The fees to which the Depositary is entitled are set out in this Scheme Information.

Under the Depositary Services Agreement, the Depositary's appointment may be terminated on 90 days written notice, subject to a replacement Depositary being appointed.

### **Liability of the Depositary under the Depositary Services Agreement**

Subject to the paragraph below, pursuant to the Depositary Services Agreement, the Depositary will be liable for loss of Deposited Property or Deposited Property in the custody of any sub-custodian (should such sub-custodian be appointed) unless that loss has arisen as a result of an external event beyond its control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary, or where the asset which is lost was held by a sub-custodian appointed in accordance with the Depositary Services Agreement and the transfer of liability from the Depositary to the sub-custodian has been expressly agreed.

The Manager will disclose to potential Unitholders before they invest in the Fund any arrangement made by the Depositary to contractually discharge itself of liability in accordance with the AIFMD Legislation. Currently, it is not envisaged that the Depositary will seek to contractually discharge itself of liability under any circumstances, and so it is not expected that this requirement under the AIFMD Legislation will be applicable to the Fund. In the event that there are any changes to the Depositary's liability under the AIFMD Legislation, the Manager will inform Unitholders of such changes without delay.

However, the Depositary shall not be liable for any indirect, special or consequential losses.

### **Depositary Conflicts of Interest**

Potential conflicts of interest may arise from time to time from the provision by the Trustee and/or its affiliates of other services to the Fund, the Manager, the Investment Manager and/or other parties. Where a conflict or potential conflict of interest arises, the Depositary will have regard to its obligations to the Fund and/or the Manager and will treat fairly the Fund, the Manager and the other funds for which it acts, so far as is practicable. Such potential conflicts of interest are identified, managed and monitored in various other ways including, the hierarchical and functional separation of HSBC's depositary functions from its other potentially conflicting roles and by the Depositary adhering to its "Conflicts of Interest Policy" (a copy of which can be obtained on request from the Head of Compliance for the Depositary).

## Title Documents to Fund Property

The Trustee has appointed Hogan Lovells International LLP and DLA Piper (for Scottish Properties) to hold in safe custody the deeds, leases and other documents relating to the Fund Property. The Trustee may review these arrangements from time to time.

## Registrar

The Registrar has been appointed to provide registrar services for the Fund and to operate the Fund's Register.

## Unitholders' Rights against Service Providers

It should be noted that Unitholders will only be able to exercise their rights directly against the Fund and the Manager and that Unitholders will not have any direct contractual rights against the service providers of the Fund appointed from time to time.

This is without prejudice to any right a Unitholder may have to bring a claim against an FCA authorised service provider, the Manager, the Investment Manager or the Depositary under Section 138D of the Financial Services and Markets Act 2000 (as a result of a breach of the FCA Regulations by such service provider, the Manager, the Investment manager or the Depositary), or any tortious or contractual cause of action.

## Units of the Fund

The Fund issues Units which pay dividends quarterly.

## Eligible Contributors

Units of the Fund can only be issued to and owned by Local Authorities in England, Wales, Scotland and Northern Ireland which are entitled to receive distributions from the Fund gross of tax.

Any Local Authority applying to participate in the Fund is required to give a declaration of eligibility to participate in the Fund and an indemnity to the Fund for any liabilities arising from such Local Authority's ineligibility to participate in the Fund. The Trustee will require evidence of the Local Authority's eligibility to invest in the Fund and may defer the issue of Units in the Fund until such time as the eligibility of the Local Authority has been confirmed.

Under the Scheme the Trustee has the discretion to refuse to accept any contribution or to refuse to accept any particular asset by way of contribution.

## Inducements

It is the Manager's policy not to enter into any soft commission arrangements with its brokers for the supply of goods and services, in return for an agreed volume of business.

In accordance with the Regulatory Rules, the Manager when executing orders or placing orders with other entities in relation to financial instruments for execution on behalf of the Fund must not accept and retain any fees, commission or monetary benefits from a third party (**Third Party Payments**). If the Manager receives any Third Party Payments, the Manager will return the Third Party Payments to the Fund as soon as reasonably possible and will inform Unitholders of the amount received which will be set out in the annual

reports.

The Manager must not accept any non-monetary benefits when executing orders or placing orders with other entities for execution in relation to financial instruments on behalf of the Fund, except those which are capable of enhancing the quality of the service provided to the Fund, and which are of a scale and nature such that they could not be judged to impair the Manager's compliance with its duty to act honestly, fairly and professionally in the best interests of the Fund.

## Research

Certain brokers provide research services to the Investment Manager, which the Investment Manager pays for out of its own resources. This research is used by the Investment Manager in its fund management process.

## Anti-Money Laundering

The Manager is required by law to maintain procedures to combat money laundering. In order to implement these procedures, proof of identity may sometimes be required either when buying or when selling Units from time to time, even of existing Unitholders. We may freeze or return your investments and/or subscription amounts unless or until the necessary evidence of identity can be obtained. In the case where Units are being sold, the remittance of proceeds may be delayed until proof of identity has been obtained. Electronic identity checks may be undertaken on the persons named within the application form.

## Telephone and electronic communications

The Manager, in accordance with the Regulatory Rules, must take all reasonable steps to record telephone conversations and keep a copy of electronic communications where such conversations and communications relate to activities in financial instruments as required by the FCA Regulations.

## Ceasing to Satisfy Unitholder Eligibility Requirements

If, at any time, a Unitholder ceases to qualify as eligible to be an investor in the Fund:

- the Unitholder must inform the Manager of this fact promptly;
- at the time the Manager becomes aware that the Unitholder has ceased to qualify as eligible to invest in the Fund, the Unitholder will be deemed to have submitted an application for the redemption of all of the Units held by the Unitholder;
- the Unitholder undertakes to indemnify the Fund (on the written demand of the Manager) against all losses suffered by the Fund (including, without limitation, any assessment for tax on capital gains tax or income tax or any other tax to which the Fund would not have been assessed had the Unitholder remained eligible, and all costs and expenses including professional fees incurred in connection with such assessment) as a consequence of the ineligibility of the Unitholder;
- the Unitholder agrees that any redemption monies in relation to the redemption of Units set out above may be retained by the Manager in order to satisfy any losses suffered by the Fund (including, without limitation, any assessment for tax on capital gains tax or income tax or any other tax to which the Fund would not have been assessed had the Unitholder remained eligible, and all costs and expenses including professional fees

- incurred in connection with such assessment) as a result of the Unitholder ceasing to qualify as eligible to invest in the Fund; and
- the Unitholder irrevocably appoints one or more of the directors of the Manager as its true and lawful attorney to execute all instruments and other documentation required to effect redemption of the Units of the Unitholder. The Unitholder agrees to ratify all and any acts of the attorney.

## Issue and Redemption of Units

Instructions for the issue or redemption of Units must be made in writing to the Manager at Senator House, 85 Queen Victoria Street, London EC4V 4ET.

Purchases or sales of the Fund's Units can be made on any Valuation Date, subject to a period of notice or delay (or successive periods of notice or delay) of such period (or periods) as the Trustee or Manager may impose to permit properties to be sold to meet withdrawals or to protect the interest of Unitholders in the Fund.

In the event of the suspension of redemption requests in full or part (i) those applications for the redemption of Units first made in respect of an earlier month end Valuation Date will be dealt with in priority to those first made in respect of a later month end Valuation Date (ii) without prejudice to (i) all applications for the redemption of Units made in respect of particular month end Valuation Date shall be treated *pari passu*, irrespective of the time such applications for the redemption of Units were actually received in respect of that month end Valuation Date and (iii) the Manager can accept in part an application for the redemption of Units and, in the event that it does so, such application for redemption of Units (and any other applications for redemption of Units which are to be treated *pari passu* with it) shall be redeemed in part *pro rata*.

Application monies paid by cheque should be drawn on an EEA (European Economic Area) banking institution and made payable to The Local Authorities' Property Fund. They must be received by the Manager not later than 5.00pm on the business day prior to the Valuation Date. Application monies so received will not earn interest and will be paid into a Fund bank account. Cheques made payable to CCLA Investment Management Limited or CCLA Fund Managers Limited will be returned.

Contract notes will normally be dispatched by close of business on the next business day after the issue of the Units. The contract note will show *inter alia*, the number of Units and the issue or redemption price. Units will be issued to the nearest round number.

Redemption instructions must be received by 5.00pm on the business day preceding a Valuation Date and may be subject to a period of notice. Cheques in respect of redemption of Units are issued within four business days after the Valuation Date on which the Units are redeemed.

If a delay is imposed, proceeds of Units redeemed (or the cost of Units issued) will be calculated on the Valuation Date when the Units can be redeemed (or issued) by the Fund and not on the Valuation Date when notice is received.

## Minimum Investment

The minimum sum that can be invested initially is £25,000. Thereafter additions to unitholdings can be made of £10,000 or above.

## Registration of Units

Units are registered in the name of the Local Authority or in recognised bank nominee names under a designated account. No certificates are issued and the Register is the definitive evidence of title. The Units have no par value and entitle the Unitholder to a proportionate interest in the Fund. Units cannot be assigned or transferred except from one Local Authority to another subject to the payment of Stamp Duty Reserve Tax payable by the Trustee and recharged to the purchaser. The number of Units held will be certified on written request for audit or other purposes.

## Secondary Market Units

From time to time the Manager may become aware of opportunities for Unitholders to trade Units other than via the Manager (the Secondary Market). In which case and at its discretion the Manager may, but is not obliged to, inform other Unitholders and or other Local Authorities.

This can enable investors to transfer holdings on terms set between themselves. The investors should instruct the Registrar to amend the Register to record the transfer of the Units to the new Unitholder.

Local Authorities should note that the Manager does not make a market and, therefore, may not be aware of every opportunity that exists to trade on the secondary market.

## Exchanging Existing Property

The Fund may consider accepting existing properties in exchange for Units of the Fund. However, the Trustee may do so but only if it is judged to be in the best interests of existing Unitholders of the Fund and on the basis of an independent professional valuation. If accepted, the exchange would be made at the open market value of the property at the net asset value of the Units issued. The Trustee has absolute discretion as to which properties it will accept.

## Risk Factors

### General risks

Past performance is not necessarily a guide to the future. The price of Units and income from them may fall as well as rise and a Unitholder may not recover the full amount invested. There can be no assurance that the Fund will achieve its investment objective or that a Unitholder will recover the full amount invested in the Fund. The capital return and income of the Fund is based on the capital appreciation and income on the Fund Property it holds, less expenses incurred. Therefore, the Fund's return may be expected to fluctuate in response to changes in such capital appreciation or income.

The Fund is permitted to borrow up to 50% of the value of the Fund in order to purchase direct properties. A failure by the Fund to perform its obligations under the terms of any

such loan would permit the lenders to demand early repayment of the finance and to realise any security they have over the Fund's Property. Borrowing also increases risk by magnifying capital and income performance, gains and losses.

**Diversification risk**

The Fund is invested in direct property and assumes the property related risks outlined under 'Direct Property Risks'. The Fund invests in UK properties only and as such is not as diversified as if it were invested across several asset classes and/or several geographical locations. Any change in legal, tax or regulatory requirements affecting the Fund or its investments may be amplified by this lack of diversification.

**Liquidity risk**

Direct property is an illiquid investment relative to other asset classes. The Units are intended only for long-term investment and are not suitable for money to be spent in the near future. Investments are realisable on each monthly Valuation Date but, due to the illiquid nature of the underlying assets, a period of notice may be imposed for the redemption of Units.

**Risk associated with investment in other collective investment schemes**

The Fund may invest in one or more collective investment schemes including schemes that are managed by the manager or affiliated companies. In some cases these collective investment schemes may be unregulated. Other collective investment schemes may be illiquid and will likely be exposed to the same risks as the Fund and as described elsewhere in this document.

**Direct Property Risks**

Property and property related assets are inherently difficult to value because of the individual nature of each property. As a result, valuations are open to substantial subjectivity. There is no assurance that the valuations of the properties will reflect the sale price achieved even where such sale occurs shortly after a valuation point.

The value of property could adversely be affected by a downturn in the property market in terms of capital value or a weakening of rental yields. The income received is dependent to a large extent upon the occupancy levels of any property and the rents paid by the tenants.

Rental revenues and property values are affected by changes in the general economic climate and local conditions. Property values are dependent in particular on current rental values, prospective rental growth, lease lengths, tenant creditworthiness and the valuation yield (which is itself related to interest rates, the market appetite for property investments in general and with reference to the specific property in question) together with the nature, location and physical condition of the property concerned.

The value of properties can also be negatively impacted by changes in planning laws.

Additional risks may arise in the event that there is a failure by a counterparty to perform its

obligations under a contract or other agreement (including failure arising from the insolvency of a tenant of a property).

Property ownership assumes associated risks including, without limitation, environmental and third party liability risk the value of which may exceed the value of the property itself.

## Risk Management Process and Liquidity Management

The Manager employs a risk management process, including the use of appropriate stress-testing procedures, which enables it to identify measure, manage and monitor at any time the relevant risks of the positions to which the Fund is or may be exposed and their contribution to the overall risk profile of the Fund.

The Manager maintains a liquidity management process to monitor the liquidity risk of the Fund, which includes, among other tools and methods of measurement, the use of stress tests under both normal and exceptional liquidity conditions.

The liquidity management systems and procedures allow the Manager to apply various tools and arrangements necessary to ensure that the Fund is sufficiently liquid to respond appropriately to redemption requests. In normal circumstances, redemption requests will be processed as set out in this Scheme Information.

Other arrangements may also be used in response to redemption requests, including, in extreme cases, temporary suspension which, if activated, will restrict the redemption rights investors benefit from in normal circumstances as set out in this Scheme Information.

## Responsible Property Investment

The Fund is managed in line with the Manager's Responsible Property Investment Policy. This integrates material environmental, social and governance issues into the investment process including pre-purchase due diligence and the ongoing management of properties in the Fund. Copies of the policy are available on request.

The manager is a signatory to the United Nations backed Principles of Responsible Investment (PRI). The annual PRI assessment is available on the Manager's website.

## Valuations

The Fund is valued monthly on the Valuation Date for the issue and redemption of Units and the value of the Fund shall be the value of its assets, including capital cash, less the value of its liabilities. The valuation of Fund property is determined as follows;

- Units in a collective investment scheme – if the scheme is singled priced then that price will be used. If the scheme is dual priced the mid-market price will be used.
- Direct Property – an External Property Valuer is responsible for providing property values for the Fund. All properties are valued at every month end at Open Market Valuation in accordance with the Red Book of the Royal Institute of Chartered Surveyors. Additions to the portfolio are valued externally after acquisition.

To calculate the issue and redemption price (offer and bid prices) of the Units the net capital asset value of the Fund shall be divided by the number of Units in issue. The Trustee may increase the issue price by such a surcharge and reduce the redemption price by such a



deduction as in either case it may think fit with a view to protecting the Unitholders of subsisting Units from being adversely affected in respect of the values of the Units by the effects of contributions and/or withdrawals. The Trustee may vary the amount of the surcharge or deduction at any time.

## **Publication of Prices**

The Fund's Unit price is published on the CCLA website.

## **Management Charges**

### **Fees**

The Manager is entitled to its pro rata fees and expenses as detailed in this Scheme Information to the date of termination of its appointment as Manager of the Fund and any additional expenses necessarily incurred in settling or realising any outstanding obligations. The Manager shall be responsible for paying the fees of the Investment Manager and the Administrator. These fees will be met from the Annual Management Charge.

### **Annual Management Charge**

The Manager makes an annual charge on the assets of the Fund at a fixed rate of 0.65% per annum (plus VAT if applicable and if any). The Annual Management Charge is based on the valuation of the Fund on the last day of the preceding month. The charge accrues daily and is deducted from the income of the Fund on the last business day of each month. The Manager makes no charge in respect of transactions carried out by the Fund.

### **Preliminary Charge**

The Manager makes no preliminary charge on the issue of Units.

### **Depositary Fees, Charges and Expenses**

The Depositary is entitled to a periodic fee which is agreed between the Manager, the Depositary and the Trustee. The Depositary is paid an annual fee of £15,000. This is charged to the Fund and paid on a monthly basis.

## **Costs and Expenses**

The following expenses incurred for the Fund shall be paid either directly by the Fund or by the Trustees and recharged to the Fund:

- legal and other costs associated with obtaining and maintaining any authorisation or registration of the Fund;
- any governmental duties payable in respect of the issue of the Fund's Units;
- cost of property transactions including, but not limited to, stamp duty, agents and survey fees
- External Property Valuer's fees;
- legal fees;
- professional and agency fees;
- audit fees;
- bank charges;

- any rates, taxes, insurance premiums, costs of security, maintenance and repairs and other costs and service charges related to specific properties which cannot be recovered;
- the fee of any external property adviser;
- cost of liability insurance for the Trustee;
- costs incurred in respect of Unitholder meetings or in modifying the constitution of the Fund; and
- such other fees or expenses as may from time to time be agreed with the Trustee.

## Taxation

The Fund is not subject to capital gains tax or income tax. Dividends are paid gross.

This is our understanding of the tax position as at the date of this Scheme Information. The tax position may change in the future. Investors should obtain their own tax advice in respect of their own position.

## FATCA

The UK International Tax Compliance (United States of America) Regulations 2014 (the UK Regulations) came into force on 30 June 2014 and implement the "Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the United States of America to improve International Tax Compliance and to implement FATCA" (commonly known as FATCA). Under UK Regulations, Financial Institutions must identify all reportable accounts and establish the tax residency of all account holders not just in respect of US persons. More background on how FATCA has been implemented in the UK can be found in HMRC's Guidance Notes at <https://www.gov.uk/government/publications/uk-us-automatic-exchange-of-information-agreement/uk-us-automatic-exchange-of-information-agreement>.

In order to comply with the UK Regulations, the Manager may be required to collect certain information about each Unitholder's tax residence(s), and determine whether it is obliged to submit certain account information to UK tax authorities, who may pass it on to other tax authorities.

Unitholders may also be asked to provide additional information to the Manager to enable the Fund to satisfy its obligations. Institutional Unitholders may be required to provide a Global Intermediary Identifications Number (GIIN). Failure to provide requested information may subject a Unitholder to liability for any resulting US withholding taxes, US tax information reporting and/or mandatory redemption, transfer or other termination of the Unitholder's interest in its Units. The GIIN for the Fund is available on request.

By signing the application form to subscribe for Units, each Unitholder agrees and acknowledges that, in certain circumstances, the Manager will be obliged to share this information with UK tax authorities, who may pass it on to other tax authorities. Unitholders are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their interest in the Fund.

## Dividends

Dividends are paid quarterly to a nominated bank account in respect of the three months to the end of June, September, December and March. They are paid one month after each quarter end. Income is calculated as income receivable by the Fund whether already received or not, less any costs and expenses accrued to date. Income is allocated to Unitholders monthly but is not included in the Unit price.

## Regular Statements

Statements of Units, management expenses and dividends paid are provided as at 30 September and 31 March.

The Manager reserves the right to charge reasonable expenses in relation to printing and postage of any additional documentation required by a Unitholder.

## Accounts of the Fund

The report and accounts of the Fund are prepared at 30 September and 31 March, being the half year and year ends respectively.

The Annual Report, in addition to the regular statements detailed above includes, amongst other things, information on the Fund's;

- assets and liabilities (including the percentage of the Fund Property that is subject to special arrangements arising from its illiquid nature);
- income and expenditure;
- total amount of leverage employed;
- activities of the financial year; and
- risk profile.

The Annual Report will also include details of:

- the Manager's risk management systems;
- details of any changes to the Fund's liquidity management;
- the remuneration paid by the Manager to its staff;
- any material changes to the information in the Scheme Information;
- any change to the Fund's use of leverage, including the maximum level of Leverage the Fund may employ; and
- any further disclosures required by AIFMD.

All accounts are audited. The Manager will make available, free of charge on its website ([www.ccla.co.uk](http://www.ccla.co.uk)) the Fund's Annual Report and Accounts for the period to 31 March (the accounting reference date) and half year report and accounts for the period to 30 September (the interim accounting date).

## Fair Treatment of Unitholders

The Manager has established policies and procedures and made arrangements to ensure the fair treatment of Unitholders. Such arrangements include, but are not limited to, ensuring that no one or more Unitholders are given preferential treatment over any rights and obligations in relation to their investment in the Fund. All rights and obligations to

Unitholders, including those related to subscription and redemption requests, are set out in this Scheme Information.

The Manager has established fair and transparent pricing models and valuation systems and procedures for the Fund Property and endeavours to ensure that there are no undue costs being charged to the Fund and the Unitholders.

The Manager has also established procedures to identify, manage and monitor conflicts of interest and, where applicable, disclose those conflicts of interest to prevent them from adversely affecting the interests of the Unitholders. The Manager has established a process for recognising and dealing with complaints fairly.

## Material Interests

The Investment Manager operates a client relationship management service.

The Trustee owns approximately 14% of the share capital of the Investment Manager.

The Manager is a wholly-owned subsidiary of the Investment Manager.

## Conflicts of Interest

The Manager, the Depositary, the Investment Manager and the Administrator are or may be involved in other financial, investment and professional activities which may, on occasion, cause conflicts of interest in the management of the Fund. In addition, the Fund may enter into transactions at arm's length with companies in the same group as the Manager.

The Depositary may, from time to time, act as depositary of other funds.

Each of the parties will, to the extent of their ability and in compliance with the FCA Regulations and AIFMD Legislation, ensure that the performance of their respective duties will not be impaired by any such involvement.

The Manager and the Investment Manager operate a Conflicts of Interest Policy (Policy) to ensure that their clients are fairly treated. The Policy seeks to avoid circumstances which they consider may give rise to potential conflicts of interest and materially disadvantage their clients. The Policy describes the controls and arrangements for preventing the Manager, the Investment Manager and their staff from:

- favouring one client over another;
- making a financial gain, or avoiding a financial loss, at the expense of the client;
- a member of staff being favoured over a client;
- providing to (or receiving from) a person other than the client, an inducement in relation to a service provided to the client, in the form of a financial interest; and
- favouring the Manager's or the Investment Manager's shareholders over a client.

Full details of the Policy are available on request.

## Authority to Open and Operate an Account

The Manager is entitled to assume that the person(s) signing an Application Form to purchase the Fund's Units in a Local Authority's name are duly authorised. In the case of sales, money is only remitted to the Local Authority or its bank but not to third parties. Where instructions are received in respect of Units held in a nominee name, the written confirmation from the Local Authority may be required by the Manager.

## Trustee Meetings

The Trustee and the Manager meet at least half yearly and the Trustee receives quarterly written reports from the Manager. The Trustee's property sub-committee meets each quarter with the Manager and Investment Manager.

## Winding Up

The Trustee has the power to wind up the Fund in accordance with the Scheme.

## Data Protection

The Manager is a data controller in accordance with the Data Protection Legislation and will hold personal data about each Unitholder's representatives (referred to below as "representatives") that has been supplied to the Manager (whether by the representative, a Unitholder or otherwise) as set out in CCLA's Privacy Notice. Each Unitholder agrees to ensure that the contact details and other personal data provided for it and its representatives to the Manager remains up to date at all times.

The Unitholder acknowledges that the Fund may invest in investment schemes operated and managed by the Manager and/or by third parties (referred to below as "investment schemes") and that the Manager may need to pass data, including personal data regarding the representatives, to those investment schemes. The Manager will not pass on any personal data to any other third party or permit the investment schemes to pass the personal data to third parties except: (i) where, in relation to the performance of its services to the Unitholder, the Manager (or the investment scheme) sub-contracts part of the services or any support services; (ii) as agreed by the Unitholder; or (iii) where required to do so for legal or regulatory purposes as set out in CCLA's Privacy Notice.

The Manager (and the investment schemes) may keep records of all business transactions for at least five years. Unitholders have a right to inspect copies of contract notes and entries in the Manager's books or computerised records relating to their transactions. Their representatives also have certain rights under applicable data protection legislation, including the right to access copies of their personal data and change the permissions given in respect of the processing of it. The Manager will treat all Unitholders' records as confidential and so reserves the right to provide copies of the Unitholder/representative's particular record, rather than allow access to files which may contain information about other Unitholders. Requests to access the above records/personal data or to exercise any other rights under applicable data protection legislation should be directed to The Data Protection Adviser at the Manager's office, Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

## Complaints

Complaints concerning the operation or marketing of the Fund should be referred in writing to:

- the Manager at; The Head of Client Services, CCLA Fund Managers Limited, 85 Queen Victoria Street, London, EC4V 4ET; or
- the Investment Manager at; The Head of Client Services, CCLA Investment Management Limited, 85 Queen Victoria Street, London, EC4V 4ET; or
- the Trustee at; The Secretary, Local Authorities' Mutual Investment Trust, Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

## Compensation

As the Fund is not an Authorised Unit Trust within the meaning of the FSMA 2000, investments in the Fund are not covered by the Financial Services Compensation Scheme. The Manager will pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund.

Further information is available from the Manager on request or via [www.fscs.org.uk](http://www.fscs.org.uk) or at their address below;

Financial Services Compensation Scheme,  
10th Floor,  
Beaufort House,  
15 St Botolph Street,  
London, EC3A 7QU.

The Manager covers its potential liability risks arising from professional liability by holding appropriate professional indemnity insurance.

## Acceptance of Terms and Conditions

By completing the Application Form, the Unitholder acknowledges and accepts the terms and conditions and agrees to be bound by the provisions of this Scheme Information and of the Scheme.

## Amendments

The Trustee and the Manager reserve the right to amend the Scheme Information at any time. Subject, where applicable, to the approval of the Treasury where necessary as set out in the Scheme and this Scheme Information, and in relation to any changes to the investment objective and policy only in accordance with the provisions dealing with such changes as set out in this Scheme Information. Unitholders will be notified of any amendment material to them.

The Manager will endeavour to give Unitholders 90 days' notice of significant changes to the Scheme Information. When changes are required for regulatory or other reasons it may not always be possible to give 90 days' notice.

In certain limited circumstances the Trustee and/or the Manager (as appropriate) may decide that very minor changes to the investment policy and/or objective of the Fund (for example,

those aimed at clarification of the investment objective and/or policy) would be considered a "notifiable change" within the meaning in the FCA Regulations. Such alterations may be made by providing Unitholders with access to an updated copy of these Scheme Particulars. All current schemes are available on [www.ccla.co.uk](http://www.ccla.co.uk) or by request please contact our Client Services department on 0800 022 3505.

### Applicable Law

Any agreement to invest in the Fund is governed by English law and subject to all applicable laws, regulations and rules. In the event of a conflict between such agreement and any such laws, regulations and rules, the latter shall prevail.

### Scheme Information

Any person relying on the information contained in this document which was current at the date shown, should check with the Manager that the document is the most current version and that no revisions or corrections have been made to the information contained herein. Copies of this document are available free of charge.

## APPENDIX 1 - Directory

### The Council of the Trustee

The Trustee, The Local Authorities' Mutual Investment Trust, is a company limited by guarantee and not having a share capital. The Trustee operates through a Council.

The members of the Council are:

T. Salmon OBE (Chairman)  
T. Beattie  
P. Clokie OBE  
E. Eyre  
P. Findlow  
R. Kemp CBE  
A. Naylor  
S. Pickup OBE  
S. Timoney

### The Manager

The Manager, CCLA Fund Managers Limited, a wholly-owned subsidiary of the Investment Manager, is a limited liability company, registered in England and Wales with Company Number 08735369 and with its registered office at Senator House, 85 Queen Victoria Street, London EC4V 4ET.

Incorporated on 16 October 2013. The directors of the Manager are:

R. Horlick (Chairman)\*  
J. Bevan  
A. McMillan  
R. Norris\*  
M. Quicke  
A. Robinson  
T. Salmon\*  
J. Tattersall\*  
R. Williams\*

(\* indicates a Non-Executive Director)

CCLA Fund Managers Limited is authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS.



## The Investment Manager

The Investment Manager, CCLA Investment Management Limited, is a limited liability company registered in England and Wales with Company Number 2183088 and with its registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

Incorporated on 26 October 1987. The directors of the Investment Manager are:

R. Horlick (Chairman)\*

J. Bevan

A. McMillan

R. Norris\*

M. Quicke

A. Robinson

T. Salmon\*

J. Tattersall\*

R. Williams\*

\*Non-Executive Director

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The Customer Telephone Helpline Number is 0800 022 3505. Please note telephone calls may be recorded.

## The Depositary

The Depositary of the Fund is HSBC Bank plc, a public limited company registered in England and Wales with its registered address at 8 Canada Square, London E14 5HQ. The Depositary is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

## The Custodian

The Custodian of the Fund is HSBC Bank plc, a public limited company registered in England and Wales with its registered address at 8 Canada Square, London E14 5HQ. The Custodian is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

## The Registrar

The Registrar of the Fund is CCLA Investment Management Limited. The Register of Unitholders may be inspected at the registered office of CCLA Investment Management Limited, at Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

## The Administrator

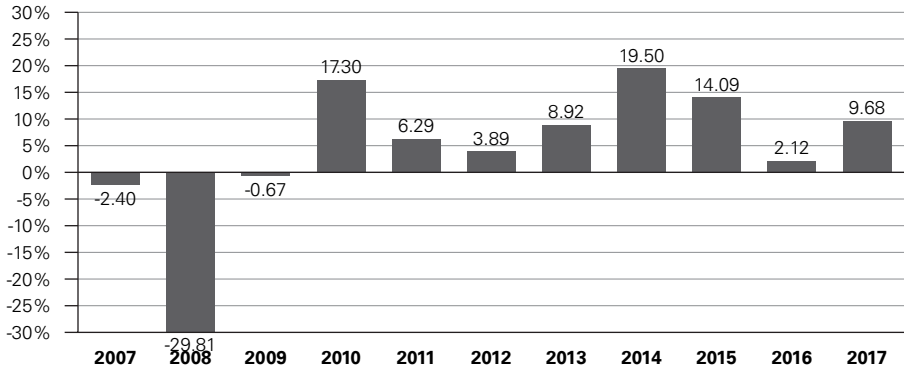
The Administrator of the Fund is CCLA Investment Management Limited, Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

## The Auditor

The Auditor of the Fund is PricewaterhouseCoopers LLP, a limited liability partnership with an office at 7 More London Riverside, London SE1 2RT.

## APPENDIX 2 - Past Net Performance

Net performance shown after management fees and other expenses.



The Fund started on April 1972. Past performance is no guarantee of future returns.



# CCLA

CCLA Client Services:  
Freephone: 0800 022 3505  
or visit [www.ccla.co.uk](http://www.ccla.co.uk)

CCLA Investment Management Limited (Registered in England No. 2183088) and CCLA Fund Managers Limited (Registered in England No. 8735639) whose registered address is Senator House, 85 Queen Victoria Street, London, EC4V 4ET are authorised and regulated by the Financial Conduct Authority.

## Internal Audit Service

# Internal Audit Report - Assurance *Opinions on Systems Administered by LGSS 2017-18*

Duncan Wilkinson, Chief Internal Auditor

18 June 2018

## 1. INTRODUCTION

- 1.1 Many financial activities transferred from Northampton Borough Council to LGSS during the 2013-14 financial year. It was agreed with the S151 Officer and the council's internal auditors (PwC) that where LGSS have the responsibility to undertake the functions, LGSS Internal Audit would complete the assurance work relating to LGSS functions, whilst PwC would continue to audit those aspects which remain in the direct control of the council. This approach has been used each year and we have worked with PwC to plan and undertake our work to enable us to provide the assurance opinions, whilst minimising duplication of work.
- 1.2 The 2017/18 plan was considered by the Audit Committee in September 2017.
- 1.3 This report summarises the findings from work carried out in 2017-18 along with outlining the plan of audit work in 2018-19.

## 2. Overview and Key Findings 2017-18

### 2.1 Audit Coverage 2017-18

- 2.1.1 The three year audit plan considered by the Audit Committee in September 2017 is detailed below:

Audit	2017-18	2018-19	2019-20
Accounts Payable		X	
Accounts Receivable			X
General Ledger			X
Bank Reconciliations		X	
Treasury Management			X
Council Tax	X		
Business Rates	X		
Housing Benefits		X	
Fixed Assets	X		
IT Audit System Review			
- Agresso	X		
- Northgate		X	
- Academy			X

- 2.1.2 During the year the IT Assurance Manager has left the organisation, which created a short-term resource issue in terms of our IT audit arrangements. In discussions with officers, it was agreed that in order to manage the impact of this issue, the review of Agresso would be deferred to 2018-19 and replaced with a review of Accounts Payable in 2017-18.

### 2.2 Summary of Key Findings

- 2.2.1 The status and outcome of our audit work in 2017-18 is attached in the table overleaf. The assurance levels are based upon the definitions in Appendix one.

Audit	Status	Control Environment Assurance	Compliance Assurance	Organisational Impact
Council Tax	Final	Good	Satisfactory	Minor
Business Rates	Final	Good	Satisfactory	Minor
Fixed Assets	Ongoing			
Accounts Payable	Final	Satisfactory	Good	Minor

2.1.2 A summary of the findings of these reviews are detailed below.

2.1.3 Council Tax - The level of assurance primarily reflects our findings in relation to the administration of discounts / exemptions in that our review highlighted the following:

- When a discount / exemption has been awarded, an event date should be recorded to remind the Council Tax Officer to review the discount / exemption at a later date. Testing highlighted a number of instances where no event date had been recorded.
- An annual plan to review specific exemptions has been developed but reviews had not been completed in line with timescales reflected in the plan.
- A targeted review of exemptions by Internal Audit highlighted that in 17% of cases, public information was obtained which Council Tax were not aware of. This included:
  - Four cases where properties had been sold after the exemption had been awarded.
  - In respect of exemption F, 14 instances were identified out of a sample of 35 where probate had been awarded and Council Tax were not aware of this.

As a result of this information, Council Tax have raised revised bills of £8,400 in 2017-18 for these cases.

It should be noted that across the other key areas considered as part of this review, controls were found to be operating effectively with only a small number of minor issues identified.

A copy of the agreed action plan for this audit is attached at Appendix two.

2.1.4 Business Rates - The level of assurance reflects our findings in relation to the administration of business rates in the following areas:

- A review of reliefs and exemptions identified the following:
  - For each relief / exemption category, there was no single reference point or procedure note detailing the circumstances when the relief / exemption can be requested and the evidence required to support an application.
  - When a relief / exemption has been awarded, a diary date should be recorded to remind the Business Rate Officer to review the relief / exemption at a later date. Testing highlighted a number of instances where no diary date had been recorded.

- When a relief / exemption has been awarded, testing highlighted a number of instances where either the property was not visited or a series of planned visits were not arranged.
- A process has been agreed to review empty property exemptions. This process commenced in February 2017 and whilst the process is to review these exemptions on a six monthly basis, our review found that the second review commenced in November 2017 rather than in August 2017 as planned and at the time of the audit, the November 2017 review had still not been completed.
- In terms of debt collection, whilst a liability order allows the Council to take action including start insolvency proceedings, our review identified debts on Academy which do not meet the write-off criteria that should proceed to the final enforcement stages, but currently no evidence could be found that this was taking place.

It should be noted that across the other key areas considered as part of this review, controls were found to be operating effectively with only a small number of minor issues identified.

A copy of the agreed action plan for this audit is attached at Appendix three.

2.1.5 Fixed Assets – This audit has been delayed as the team responsible for maintaining the Council’s Fixed Asset Register have prioritised work on attempting to resolve issues arising from the 2016-17 accounts and as a consequence, 2017-18 activity had not been included in the register. Discussions with senior officers in the Council has resulted in a decision to continue with the review so that a full understanding of the system can be obtained. This work is currently ongoing at the time of this work and once the review has been completed, a summary of the findings will be reported to the Audit Committee

2.1.6 Accounts Payable - The level of assurance reflects the following key findings:

- Whilst the scope of our review was limited to activity undertaken by LGSS on behalf of the Council, in evaluating working practices that LGSS operate to, we have not been able to establish that these have been formally agreed between LGSS and the Council. In particular, our review has highlighted the following weaknesses in current working practices:
  - There is little control in place over the use of new suppliers by the Council.
  - Tolerance levels set to resolve price differentials between the order and invoice value are (a) not adequately defined to take account of the range of invoice values processed by the Council and (b) are set at a relatively high value for a price difference to be processed without budget holder approval.
- Testing of bank account amendments found that paperwork to support amendments made could not be located and as a result, we were unable to evidence the checks undertaken to validate the request as genuine. Furthermore, whilst evidence was found that management checks had been undertaken of activity through the supplier masterfile, this did not define the number of checks undertaken and what they involved.
- Only two reconciliations between Accounts Payable and the General Ledger had taken place during 2017-18 and neither reconciliation had been subject to management review.



A copy of the agreed action plan for this audit is attached at Appendix four.

- 2.1.7 The findings from these reviews will be followed up in 2018-19 and reported to management and the Audit Committee.

### **3. 2018-19 Internal Audit Plan**

- 3.1 In consultation with the interim Chief Financial Officer and the Governance and Risk Manager, the planned audit coverage as outlined in 2.1.1 has been reviewed to ensure resources reflect the priorities of the Council. As a result, the following reviews have been agreed for 2018-19:

- Housing Benefits
- IT Audit System Review of Agresso
- Accounts Receivable
- Quarterly Balance Sheet Reviews – This is a new review which will include elements of coverage that would normally be considered in reviews of Bank Accounts Reconciliations and General Ledger.

### Appendix One: How Internal Control is reviewed

Each Internal Audit review has three key elements. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

However, controls are not always complied with, which will in itself increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is undertaken to ascertain the impact these control weaknesses are likely to have on the organisations' control environment as a whole.

To ensure consistency in reporting, the following definitions of audit assurance are used:

<b>Control Environment Assurance</b>	
<b>Level</b>	<b>Definition</b>
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Satisfactory	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

<b>Compliance Assurance</b>	
<b>Level</b>	<b>Definition</b>
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant

	errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact	
Level	Definition
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

When assessing findings in the Management Action Plan, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found. For ease of reference, we have used the following system to prioritise our recommendations, as follows:

<b>ESSENTIAL (E)</b>	<b>Important (I)</b>	<b>Standard (S)</b>
Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss. The improvement is critical to the system of internal control and action should be implemented as quickly as possible.	Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss. The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.	The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should implement promptly or formally agree to accept the risks.

Appendix Two: Council Tax Review Action Plan

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Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1	<p><b><u>Exemption Monitoring – Follow up Action</u></b> When a discount / exemption has been awarded, an event date should be recorded to remind the Council Tax Officer to review the discount / exemption at a later date. Testing of discounts / exemptions awarded identified six instances where no event date had been recorded.</p> <p><b><u>Risk</u></b> Lost income as exemptions awarded that customers are not entitled to.</p>	<p><b>Important</b> To review procedures to gain assurance that all exemptions have an event date is recorded.  To ensure that the planned annual review of discounts and exemptions take place.</p>	<p>Revenues &amp; Benefits Operations Manager  30/06/18</p>
2	<p><b><u>Exemption Monitoring – Annual Review</u></b> An annual review plan has been developed to review all exemptions. Based on discussions with the Council Tax Team Leader, it was acknowledged the review had not been completed in line with the agreed timetable although this work was in progress.</p> <p><b><u>Risk</u></b> Lost income as exemptions awarded that customers are not entitled to.</p>	<p><b>Important</b> To ensure that the planned annual review of discounts and exemptions take place. Evidence to be recorded of delivery and QA testing completed to demonstrate effectiveness.</p>	<p>Revenues &amp; Benefits Operations Manager  30/05/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3	<p><b><u>Exemptions – Properties Sold</u></b> In four cases, the properties had been sold after the exemption had been awarded.</p> <p><b><u>Risk</u></b> Lost income as exemptions awarded that customers are not entitled to.</p>	<p><b><u>Important</u></b> To update records for the four cases highlighted.</p> <p>To review current monitoring procedures to consider the risk that properties are sold and notification has not been received by Council Tax. This could involve using such tools as Zoopla and other public records. These cases will either be reviewed by individual review date, or by annual review, depending on the individual circumstance of each case.</p>	<p>Revenues &amp; Benefits Operations Manager</p> <p>Immediate / 30/03/18</p>
4	<p><b><u>Exemption F Monitoring</u></b> 14 instances were identified where probate had been awarded and Council Tax were not aware of this. We believe this is primarily due to the fact that Council Tax do not routinely check records held by the Probate Office to gain assurance that the exemption remains valid.</p> <p><b><u>Risk</u></b> Lost income as exemptions awarded that customers are not entitled to.</p>	<p><b><u>Essential</u></b> To update records and review exemptions for the 14 cases highlighted.</p> <p>To revise the procedure for monitoring exemption F, to include detail and depth of investigation, and making full use of checks on records held by the Probate Office and other public records. These cases will either be reviewed by individual review date, or by annual review, depending on the individual circumstance of each case.</p>	<p>Revenues &amp; Benefits Operations Manager</p> <p>Immediate / 30/03/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
5	<p><b>Write Offs</b> A review of five write offs in 2017-18 to the value of £8,281 highlighted that the email approving the write off had not been retained.</p> <p><b>Risk</b> Approval of write offs cannot be verified.</p>	<p><b>Important</b> To review the current process, to implement practices that clearly demonstrate the cases corrected and by whom.</p> <p>To retain evidence to support approval of write offs.</p>	<p>Revenues &amp; Benefits Operations Manager</p> <p>Immediate / 30/03/18</p>
6	<p><b>Refunds</b> Refunds are not always repaid through the same mechanism as the payment was made. In two cases for refunds of £692.28 and £177.77 respectively, payments were made using a credit card and a refund was made by the Council by cheque based on a request from the client for the alternative method.</p> <p><b>Risk</b> Fraudulent payments resulting in lost money to the Council.</p>	<p><b>Important</b> To ensure that refunds are made to the same mechanism as the payment was made, unless the customer has specifically requested an alternative, which will be subject to tests on reasonableness and money laundering.</p> <p>To review and re-issue clear procedures on the refund process, that cover guidance on the above. To provide training through 1:2:1s, team meetings, and the classroom environment, as appropriate to individual needs. Evidence to be recorded of delivery and QA testing completed to demonstrate effectiveness.</p>	<p>Revenues &amp; Benefits Operations Manager</p> <p>Immediate</p>

**Appendix Three: Business Rates Review Action Plan**

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
77 1	<p><b><u>Tax Base Reconciliations</u></b> The Business Rates team reconcile the cumulative RV of properties on the Academy System to the VO list. However this reconciliation does not include the number of properties as whilst the VO lists include properties with zero rateable values, the Academy System does not record such properties.</p> <p><b><u>Risk</u></b> Lost income as properties may come back into use as the Council / Valuation Office are unaware of this.</p>	<p><b>Standard</b> Business Rates to include all NDR properties (including properties with a zero RV) on Academy and ensure the reconciliation considers both the number of properties and cumulative RV. This will be achieved by undertaking:</p> <ul style="list-style-type: none"> <li>• A reconciliation of those properties considered “place-cards” as being valid, properties with no end date, and RVs which the VOA has reduced to zero, or moved to the central list.</li> <li>• Implement a monitoring process for properties with “zero” RVs.</li> <li>• Implement a monitoring process for properties reduced to zero by the VOA.</li> </ul>	<p>Corporate Recovery &amp; Business Rates Manager</p> <p>30/06/18</p> <p>31/07/18</p> <p>31/07/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
2	<p><b><u>Annual Billing Process Checks and Balance</u></b> Whilst evidence could be found on Academy that for the 2017-18 billing process, all differences compared with 2016-17 had been resolved or could be explained, an Academy System report which summarises this review was not retained and could not be recreated during the audit.</p> <p><b><u>Risk</u></b> Errors / differences investigated and cleared during the annual billing testing process cannot be verified.</p>	<p><b>Standard</b></p> <p>The Balancing Hub report highlighting the errors / differences during the main billing process, should be retained with confirmation of how the differences have been satisfied as correct.</p>	<p>Corporate Recovery &amp; Business Rates Manager</p> <p>01/03/19</p>
3	<p><b><u>Guidance Notes</u></b> For each relief / exemption, there was no single reference point or procedure note detailing the circumstances when the relief / exemption can be requested and the evidence required to support an application.</p> <p><b><u>Risk</u></b> Incorrect procedures followed.</p>	<p><b>Important</b></p> <p>Business rates should establish guidance notes for each NDR relief and exemption category which details when the relief / exemption can apply and the evidence required. This has been recognised in the Service Improvement Plan, which also includes establishing best practice.</p>	<p>Corporate Recovery &amp; Business Rates Manager</p> <p>30/09/18</p>



Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
4	<p><b><u>Exemption Monitoring – Diary Date</u></b> When a relief / exemption has been awarded, a diary date should be recorded to remind the Business Rates Officer to review the relief / exemption at a later date. Testing of 24 relief / exemptions awarded identified 18 instances where no diary date had been recorded.</p> <p><b><u>Risk</u></b> Lost income as relief / exemptions awarded that customers are not entitled to.</p>	<p><b>Important</b> To review procedures to gain assurance that all relief / exemptions awarded have a diary or follow up date recorded.</p> <p>To ensure that the appropriate review of reliefs and exemptions takes place.</p>	<p>Corporate Recovery &amp; Business Rates Manager</p> <p>30/06/18</p>
5	<p><b><u>Exemption Monitoring – Property Visits</u></b> When a relief / exemption has been awarded, the property should be visited either within a 3/6 month period and / or a series of visits be arranged. Testing of 24 relief / exemptions awarded identified 19 instances where the property was not visited and / or a series of planned visits was not arranged.</p> <p><b><u>Risk</u></b> Lost income as relief / exemptions awarded that customers are not entitled to.</p>	<p><b>Important</b> To review procedures to gain assurance that properties are visited and / or a series of visits are arranged on all relief / exemptions awarded where appropriate.</p> <p>To ensure that the planned annual review of reliefs and exemptions take place. Evidence to be recorded of delivery and QA testing completed to demonstrate effectiveness.</p>	<p>Corporate Recovery &amp; Business Rates Manager</p> <p>30/06/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
6	<p><b>Property Exemption - Six Monthly Review</b> A process has been agreed to review empty property exemptions. This process commenced in February 2017 and whilst the process is to review these exemptions on a six monthly basis, our review found that:</p> <ul style="list-style-type: none"> <li>Whilst the initial review took place in February 2017, the second review commenced in November 2017 rather than in August 2017 as planned.</li> <li>At the time of the audit, the November 2017 review had still not been completed.</li> </ul> <p><b>Risk</b> Lost income as exemptions are awarded that businesses are not entitled to, or billing the right person, at the right time due to delay.</p>	<p><b>Important</b> To review the current arrangements in light of the issues identified. To consider whether a more timely, or appropriate, arrangement for reviewing individual properties (i.e. especially high value properties) would be beneficial rather than a six monthly review process. This given that most exemptions are for a three month period, bills are issued automatically, the review could be more effective as part of the recovery process.</p>	<p>Corporate Recovery &amp; Business Rates Manager  30/06/18</p>
7	<p><b>Business Rates Collection</b> Whilst a liability order allows the Council to take action including start insolvency proceedings, our review identified debts on Academy which do not meet the write-off criteria that should proceed to the final enforcement stages, but currently no evidence could be found that this was taking place.</p> <p><b>Risk</b> Income not collected.</p>	<p><b>Important</b> Whilst there are recovery practices in place, consistency, frequency of review, appropriateness and cost effectiveness of recovery action needs to be delivered. The recovery timetable to be widened to ensure the appropriate focus is on the latter stages of the recovery process.</p>	<p>Corporate Recovery &amp; Business Rates Manager  31/07/18</p>

## Appendix Four: Accounts Payable Review Action Plan

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1	<p><b><u>New Supplier Set Up</u></b></p> <p>There is little control before a new supplier is set up on Agresso as (a) any Council officer can request this and (b) no checks are undertaken to demonstrate that the supplier offers value for money perspective or that an existing contracted supplier already provides the same goods / service as the new supplier.</p> <p><b><u>Risk</u></b> No control over suppliers used. Value for money is not achieved through using the supplier. Goods / Services already provided through an existing Council contract.</p>	<p><b><u>Important</u></b></p> <p>To review the current procedure for setting up a supplier in conjunction with senior officers at NBC.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>
2	<p><b><u>Changes to Supplier Bank Account Details</u></b></p> <p>Testing of five changes to supplier bank details in 2017-18 highlighted that no the paperwork could be located to support the amendments made and as a result we were unable to evidence the checks undertaken to validate the request as genuine.</p> <p><b><u>Risk</u></b> Inappropriate amendments to supplier bank accounts have taken place.</p>	<p><b><u>Essential</u></b></p> <p>To gain assurance that the five bank account amendments were based on requests from the supplier or Council Officers.</p> <p>To ensure that appropriate paperwork is maintained to demonstrate that any changes to suppliers bank account details can be traced back to a documented request as well as demonstrating the checks undertaken to validate the request as genuine.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3	<p><b><u>Independent review of Supplier Masterfile Activity</u></b> Whilst weekly reports of activity through the supplier masterfile are annotated that checks have been undertaken by the LGSS Exchequer Team Leader, the number of checks and what they involved are not recorded.</p> <p><b><u>Risk</u></b> Checks undertaken do not identify a fraudulent or inaccurate amendment to a suppliers bank account details being made.</p>	<p><b>Important</b> To define in a procedure, the review process undertaken by the Exchequer Team Leader to gain assurance that activity through the supplier masterfile is processed accurately and based on a genuine request.</p> <p>To annotate on the weekly report the results of checks undertaken by the Exchequer Team Leader.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>
4	<p><b><u>Tolerance Levels</u></b> Tolerance levels between the order and invoice value are set at £100 which is a relatively high value without the need for budget holder approval. Further, the use of just a financial value does not allow the difference to take account of the invoice value.</p> <p><b><u>Risk</u></b> Loss of income as errors in supplier invoicing not considered.</p>	<p><b>Important</b> To review the current procedure covering tolerance levels in conjunction with senior officers at NBC.</p>	<p>Exchequer Team Leader</p> <p>30/06/2018</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
5	<p><b><u>Accounts Payable to General Ledger Reconciliation</u></b>            Whilst we were advised that a monthly reconciliation should be undertaken, testing found that only two reconciliation had taken place covering the financial year 2017-18 and in neither case had the reconciliation been subject to management review.</p> <p><b><u>Risk</u></b>            Errors not identified and resolved on a prompt basis</p>	<p><b>Important</b>            The reconciliation will be undertaken on a monthly basis and will be subject to management review.</p>	<p>Business Systems            Improvement            Manager</p> <p>Immediate</p>

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# *Internal audit annual report 2017/2018*

**Northampton  
Borough Council**

**June 2018**

**84**

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Agenda Item 11

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  - 2. Opinion types
  - 3. Basis of our classifications
  - 4. Performance of internal audit

## Distribution list

For action: George Candler, Chief Executive  
Francis Fernandes, Monitoring Officer  
Stuart McGregor, Section 151 Officer

For information: Members of the Audit Committee



## *Executive summary*

### *Introduction*

This report outlines the internal audit work we have carried out for the year ended 31 March 2018.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Audit Committee agreed to a level of internal audit input of 200 days, of which 177 days were delivered.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

### *Head of internal audit opinion*

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.





## *Executive summary*

### **Opinion**

Our opinion is as follows:

#### **Major improvement required**

There are significant weaknesses or non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk.

Major improvements are required to improve the adequacy or effectiveness of governance, risk management and control. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

### **Basis of opinion**

Our opinion is based on:

- All audits undertaken during the year;
- The effects of any significant changes in the organisation’s objectives or systems;
- Any limitations which may have been placed on the scope or resources of internal audit;
- What proportion of the organisation’s audit needs have been covered to date;
- Our insight gained from our regular discussions:
  - Audit Committee
  - Chief Executive
  - Leader of the Council
  - Corporate Governance and Risk Manager

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

## *Executive summary*

### **Commentary**

Over the past year the Council has focused heavily on the introduction and implementation of items identified in the governance action plan. When assessing progress in implementation the Council has moved some way forward but such measures are bound to take a substantial amount of time to embed across the Council. As yet, the revised governance arrangements are not fully embedded across the organisation.

There has been a period of uncertainty following the departure of key members of the leadership team. The Chief Executive position was filled by an interim for a period of six months until the substantive Chief Executive took up the position on 30 April. During this time the Section 151 Officer has left the organisation and the position is currently filled by an experienced interim. These changes although necessary have delayed the embedding of a new culture and regime across the Council.

The key factors that contributed to our opinion are summarised as follows:

- We completed 4 internal audit reviews. This resulted in the identification of no critical, 2 high, 8 medium and 10 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness;
- Our report on contract management was rated high risk, as there was no contract in place for all but one of the twelve suppliers with whom the Council had expenditure of over £75,000 in the period under review. The contract register had a number of errors, and
- The commitment to finalising the 2016/17 financial statements has taken up a considerable amount of time of the senior management team and relevant staff. At the time of writing, these financial statements had yet to be finally approved and the audit certificate was yet to be received. This is a serious delay, and a strong indication that the accounting controls in the Council, particularly over accounting for fixed assets, have not operated as intended. We have not been able to complete one of our planned pieces of work on the processes associated with the revaluation of land and buildings, the main cause of the delay with the accounts.

There has been considerable change in senior leadership throughout the period which has delayed progress with the Council's vision and strategy. This has hampered the Council's ability to embed a new culture and fully implement the Governance Action Plan. The appointment of a Governance & Risk Manager and Senior Controls Officer has helped to strengthen the Council's work to implement the Governance Action Plan.

### **Acknowledgement**

We would like to take this opportunity to thank Northampton Borough Council staff, for their co-operation and assistance provided during the year.

## Summary of findings

Our annual internal audit report is timed to inform the organisation’s Annual Governance Statement.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

Description	Detail
<p><b>Overview</b></p> <p>We completed 4 internal audit reviews. This resulted in the identification of no critical, 2 high, 8 medium and 10 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness.</p>	<p>The table in Internal Audit work conducted shows all reviews undertaken during the year and the results of these.</p>
<p><b>Internal control issues</b></p> <p>During the course of our work we identified a number of weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<p>During the year we issued 1 high risk report relating to Contract Management, which contained two high risk rated findings. These should be considered for inclusion in the Annual Governance Statement. The findings related to:</p> <ul style="list-style-type: none"> <li>• <b>Contract testing</b> –three of the five contracts tested were the responsibility of an organisation external to the Council therefore should not be recorded on the contract register. A further two of the five contracts tested could not be located so it was not possible to determine if there was an appropriate mechanism for oversight and control. Finally, one of the five contracts tested included the incorrect contract owner and the appropriate person could not be identified; and</li> <li>• <b>Expenditure records</b> –the procurement rules as set out in the Constitution state that all expenditure over £75,000 should have a contractual arrangement in place. Review of the published expenditure between April 2017 and July 2017 identified that there were 20 suppliers which expenditure over £75,000, of these we would have expected a contract with 12 suppliers –yet an entry was only included on the contract register for 1 of these suppliers.</li> </ul>

## Summary of findings

Description	Detail
<p><b>Other weaknesses</b></p> <p>Other weaknesses were identified within the organisation’s governance, risk management and control.</p>	<p>Medium and low risk issues arose across a range of reviews, as shown in Internal Audit work conducted.</p>
<p><b>Follow up</b></p> <p>During the year we agreed that we follow up work on previously agreed actions would be undertaken by the Council.</p>	<p>It was agreed with the Governance and Risk Manager and communicated to the Audit Committee in September 2017 that this work will be undertaken internally within the Council. The available audit days have been redistributed to support the Council in other ways</p>
<p><b>Good practice</b></p> <p>We also identified a number of areas where few weaknesses were identified and/or areas of good practice.</p>	<p>The following reviews were classified as low risk:</p> <ul style="list-style-type: none"> <li>• Organisational change - payroll</li> </ul>

## Internal audit work conducted

### Introduction

The table below sets out the results of our internal audit work and implications for next year’s plan. The following page shows direction of control travel and a comparison of planned and actual internal audit activity.

### Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Organisational change - HR	Medium	0	0	3	4
Organisational change - payroll	Low	0	0	1	1
Contract management	High	0	2	1	1
Delegations	Medium	0	0	3	4
	<b>Total</b>	0	2	8	10

In addition we have carried out the following reviews where no overall risk rating has been provided:

- Governance and risk management;
- Culture – questionnaire;
- Culture – whistleblowing; and
- Fraud workshop.






### Other activities:

In addition to the core internal audit plan we have carried out a review where no overall risk rating has been provided:

- Environment Services contract re-provision.

## Internal audit work conducted

### Direction of control travel

Finding rating	Trend between current and prior year	Number of findings	
		2017/18	2016/17
<b>Critical</b>		0	0
<b>High</b>		2	0
<del>Medium</del>		8	5
<b>Low</b>		10	13
<b>Total</b>		20	18

### Implications for management

It should be noted that the mix and focus of our internal audit plans have differed between years and therefore these results may not be directly comparable.

## Internal audit work conducted

### Comparison of planned and actual activity

This year has seen a considerable amount of change to the internal audit plan. We have reflected the movements in the plan, against actual delivery in the table below:

Audit unit	Budgeted days – original audit plan	Budgeted days – updated September 2017	Budgeted days – updated November 2017	Budgeted days – updated January 2018	Actual days	Comments
Governance and risk management	40	40	40	40	40	Actual days were in line with the original plan.
Organisational change - vision and strategy	10	10	10	10	0	Given the significant change in leadership at the Council it was deemed appropriate to postpone this review.
Organisational change – departmental level reviews	30	30	30	23	23	Two of the three planned reviews around HR and Payroll were undertaken. The legal review did not go ahead.
Financial governance	50	15	15	0	0	Review removed from the plan. Replaced with additional reviews detailed below.
Tracking recommendations and follow up	20	0	0	0	0	Review removed from the plan. Replaced with additional reviews detailed below.
Culture	30	30	30	30	30	Actual days were in line with the original plan.
Contract management	-	15	15	20	20	Additional review undertaken following a review of the IA plan with the Governance and Risk Manager. Communicated in September 2017. Scope extended in January 2018.
Delegations	-	10	10	23	23	Additional review undertaken following a review of the IA plan with the Governance and Risk Manager. Communicated in September 2017. Scope extended in January 2018.

## Internal audit work conducted

### Comparison of planned and actual activity

Audit unit	Budgeted days – original audit plan	Budgeted days – updated September 2017	Budgeted days – updated November 2017	Budgeted days – updated January 2018	Actual days	Comments
Fraud risk assessment/Fraud awareness	-	-	15	19	19	Additional review undertaken following a review of the IA plan with the Governance and Risk Manager. Communicated in September 2017. Scope extended in January 2018.
Estates and assets revaluations	-	15	15	15	2	Additional review undertaken following developments at the Council. Communicated in January 2018. The review did not go ahead owing to the current position of the Council.
IA Management time	20	20	20	20	20	Actual days were in line with the original plan
<b>Total</b>	<b>200</b>	<b>185</b>	<b>200</b>	<b>200</b>	<b>177</b>	



## *Follow up work conducted*

### *Introduction*

In order for the organisation to derive maximum benefit from internal audit, actions should be implemented within agreed timescales. It was agreed with the Governance and Risk Manager and communicated to the Audit Committee in September 2017 that this work will be undertaken internally within the Council. The available audit days have been redistributed to support the Council in other ways



**Appendix 1: Limitations  
and responsibilities**

**Appendix 2: *Opinion types***

**Appendix 3: Basis of our  
classifications**

**Appendix 4: *Performance of  
internal audit***

# Appendices

## **Appendix 1: Limitations and responsibilities**

### **Limitations inherent to the internal auditor’s work**

Our work has been performed subject to the limitations outlined below.

#### **Opinion**

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

#### **Internal control**

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### **Future periods**

Our assessment of controls relating to Northampton Borough Council is for the period 1 April 2017 to 31 March 2018. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

### **Responsibilities of management and internal auditors**

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

## Appendix 2: Opinion types





The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





Type of opinion	Indication of when this type of opinion may be given
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</li> <li>None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Generally Satisfactory with some improvements required</b>	<ul style="list-style-type: none"> <li>Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or</li> <li>High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and</li> <li>None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Major improvement required</b>	<ul style="list-style-type: none"> <li>Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or</li> <li>High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or</li> <li>Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and</li> <li>A minority of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>Unsatisfactory</b>	<ul style="list-style-type: none"> <li>High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or</li> <li>Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or</li> <li>More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:                             <ul style="list-style-type: none"> <li>Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li> <li>We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li> </ul> </li> </ul>

## Appendix 3: Basis of our classifications

### Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
 <b>Critical</b>	40 points per finding
 <b>High</b>	10 points per finding
 <b>Medium</b>	3 points per finding
 <b>Low</b>	1 point per finding

Report classification	Points
 <b>Critical risk</b>	40 points and over
 <b>High risk</b>	16–39 points
 <b>Medium risk</b>	7–15 points
 <b>Low risk</b>	6 points or less



## Appendix 3: Basis of our classifications

### Individual finding ratings

Engagement teams should tailor the ‘assessment rationale’ section below based previous discussions with management and the relevant committee e.g. Audit Committee.

Finding rating	Assessment rationale
 <b>Critical</b> <span style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold;">100</span>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
 <b>High</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
 <b>Medium</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
 <b>Low</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation’s operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
 <b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

## Appendix 4: Performance of internal audit

### Key performance indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained :

KPI	Target	Performance	Comments
<b>Infrastructure</b>			
• Audits budgeted v actual	+/- 10 plan days	-23 days	Management requested to remove and postpone reviews from the original plan. Some days were used for additional reviews.
<b>Planning</b>			
101 % of audits with Terms of Reference	100%	100%	All completed audits have a terms of reference that has been agreed by management.
<b>Fieldwork</b>			
• % of audits with an exit meeting	100%	100%	All completed audits have had an exit meeting summarising the outputs from the review and identifying the next steps in terms of preparing a report. For all completed audits a draft report has been shared with management for comment with the option to discuss the report further.
<b>Reporting</b>			
• Draft reports issues promptly	100%	We have tried to work with management and be flexible in terms of delivery, completion of on-site work and reporting during the year. However, due to delays with management responses this has resulted in reviews being delivered later than planned and resulting in overall delays to the expected completion of reviews against the plan.	
• Attendance at Audit Committee	100%	100%	We have attended all Audit Committee meetings and provided a paper setting out our current progress against the Internal Audit Plan.
<b>Relationships</b>			
• Overall client satisfaction score	9/10	-	As yet no feedback has been requested.

## Appendix 4: Performance of internal audit

### Quality assurance improvement programme

Key Quality Assurance Systems	How this is applied
<b>Global internal audit methodology, including working practices, documentation standards and software tools applied to all internal audits</b>	<ul style="list-style-type: none"> <li>All internal audits are conducted to minimum professional standards which include:                             <ul style="list-style-type: none"> <li>Approval of terms of reference, including stakeholder “buy in” and involvement;</li> <li>Application of our global internal audit methodology;</li> <li>Standardised reporting formats agreed with you; and</li> <li>Key program steps that need to be completed on each assignment to comply with minimum quality assurance standards in line with the Public Sector Internal Audit Standards.</li> </ul> </li> </ul>
<b>Regular internal audit training and development</b>	<ul style="list-style-type: none"> <li>We place great emphasis on developing and maintaining the skills of our people. We achieve this through a programme of regular management and technical training, attended by all our staff. This is supplemented by sector specific training. For the public sector, this includes:                             <ul style="list-style-type: none"> <li>Internal training courses on internal audit with a public sector focus;</li> <li>National update seminars on, for example, risk management and governance;</li> <li>Weekly newsletter containing new and emerging issues in the public sector; and</li> <li>Distribution network for relevant internal and external documentation and publications.</li> </ul> </li> </ul>
<b>Compliance with professional practice and ethical standards</b>	<ul style="list-style-type: none"> <li>Quality is further underpinned by teams of appropriately trained people with industry experience, supported where necessary by specialist skills drawn from other service areas across the firm.</li> <li>The majority of our staff are members of professional institutes and comply with ethical rules, technical standards and professional practice laid down by those bodies. This is supplemented by the Firm’s own professional practice and ethical standards.</li> </ul>
<b>Focus on staff performance and quality</b>	<ul style="list-style-type: none"> <li>All our auditors set performance objectives prior to conducting an audit assignment. A project appraisal form is then completed at the end of each assignment which covers both performance and overall behaviour. Should there be any problems the Engagement Manager and where necessary, Engagement Leader, will advise the staff member of any improvements that should be made in their performance.</li> </ul>



## Appendix 4: Performance of internal audit

### Quality assurance improvement programme (continued)

<b>Continuous communication with you throughout the audit</b>	<ul style="list-style-type: none"> <li>• Key stakeholders are involved in developing terms of reference, which is approved by a client audit owner.</li> </ul>
<b>Customer feedback</b>	<ul style="list-style-type: none"> <li>• To continue to develop our service, it is important that we understand the expectations of the council and receive feedback on our performance.</li> <li>• The firm's quality control and assurance procedures additionally involve the use of an annual client satisfaction survey.</li> </ul>
<b>Key Performance Indicators</b>	<ul style="list-style-type: none"> <li>• We agree with you Key Performance Indicators and make sure we as a team are meeting them, if not exceeding them.</li> <li>• We will look to discuss and modify our Key Performance Indicators where appropriate.</li> </ul>
<b>Quality Assurance programme</b>	<ul style="list-style-type: none"> <li>• We run an annual Quality Assurance programme in which an independent team of practice partners and staff review completed engagements to access compliance with our quality standards and regulatory requirements.</li> </ul>

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This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council in our agreement dated 19<sup>th</sup> June 2017. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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# External Audit Progress Report 2016/17

Northampton Borough  
Council

June 2018

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[kpmg.com/uk](http://kpmg.com/uk)





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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

# Summary for Audit Committee

Since we last communicated to the Audit Committee in September 2017, we have made progress on key areas which we have stated were outstanding.

We formally wrote to the Chief Finance Officer on 29 September 2017 stating that we had identified a number of issues relating to the Authority's fixed assets, including but not limited to the valuation of social housing, other land and buildings, and investment properties, as well as the methodology adopted towards componentisation<sup>1</sup>.

Cumulatively, the Authority's fixed assets represent the biggest balances on your balance sheet, at £599 million<sup>2</sup>.

Due to the number of areas of concern and errors found, we were not able to obtain sufficient assurance that your financial statements present a true and fair view prior to the statutory deadline of 30 September 2017.

This report summarises progress made since September 2017.

<sup>1</sup> See copy of letter in Appendix 1.

<sup>2</sup> Per the original draft financial statements, presented to Audit Committee on 3 July 2017

**Property, Plant & Equipment (PPE) and Investment Properties**

We last reported in our *External Audit Report 2016/17 (ISA 260)* that there were significant difficulties in carrying out the audit work over the Authority’s PPE and investment properties. This difficulty extends to the Authority’s Council Dwellings.

The Authority has so far engaged three external valuers. This is in addition to the initial use of its internal valuation specialists, who have since left the Authority. The external valuation firms are:

- Underwoods;
- Bruton Knowles; and
- GVA

Appendix 3 summarises the key events relating to our work on the Authority’s fixed assets.

**Table 1: Use of valuation experts**

	Council Dwellings	Other land and buildings	Investment properties
Internal valuers	Full	Part	–
Underwoods	Review	Part	Full
Bruton Knowles	Full	–	–
GVA	–	Part	–

**Council dwellings**

*Background*

We reported in our September 2017 report that we had noted issues with the valuation exercise previously undertaken by Underwoods in February 2017. As a result of this, the Authority engaged Bruton Knowles on 20 April 2017 to perform the valuation exercise on beacon properties which had been previously valued by the internal valuers and reviewed by Underwoods.

*Bruton Knowles reports, May and September 2017*

We undertook a review of the initial Bruton Knowles report (dated May 2017), which we received on 23 June 2017. We noted a number of issues with the report:

- the valuer had adopted a social housing adjustment factor of 33%, which is not consistent

with the guidelines issued by the Ministry of Housing, Communities & Local Government (MHCLG, previously DCLG). This was the social housing adjustment factor for the South East; and

- a full valuation had not been undertaken on the chosen beacons per the Authority’s instructions. This was not in line with the requirements.

**Table 2: Social housing adjustment factor – MHCLG guidance**

	Previous guidance (Jan 2011)	Update guidance (Nov 2016)
East Midlands	34%	42%
South East	32%	33%

Our valuation specialist has reviewed the valuation report and liaised with Bruton Knowles to understand and review the valuation basis, methodology, and assumptions used in the valuation exercise. Our specialist had challenged the year-end uplift of 10%, due to reliance on one source of information.

Bruton Knowles subsequently agreed to amend the report to take into account the issues raised by KPMG. A revised report was issued in September 2017. We noted pages missing from the draft report and requested a final version. We did not receive the final report until 28 March 2018.

*Reconciliation of valuation report to fixed asset register*

Due to the expectation that the Bruton Knowles valuation exercise will change the Authority’s beacon values, we requested in December 2017 that the Authority provide a reconciliation between the draft version of the valuer’s September 2017 report and the fixed asset register. The reconciliation process is important as it provides assurance both to the Authority and auditors that:

- all assets that should be valued have been valued;
- the correct information (asset name, type, value, etc) have been provided to the valuer; and
- the valuer’s valuation has been correctly transacted by the Authority and correctly reflected within the fixed asset register.

As with the first report (May 2017), no reconciliation

had been provided to us (despite multiple requests dating back to December 2017). We reiterated this on 1 February 2018 that this is crucial to progressing with the audit. A working paper was subsequently provided on 12 April 2018. We reviewed this working paper and found differences between the previous year's closing figures and the figures used by Bruton Knowles.

### *Application of uplift based on original valuation*

Upon investigation, the Council informed us that this was due to the uplift of 4.08% which had been applied by the internal valuers on 1 April 2016—this was the original valuation which has since been superseded by both the Underwoods and Bruton Knowles valuations.

It was unclear why this original uplift had been transacted given:

- Underwoods had found issues with the original beacons (although Underwoods' report has been challenged by us); and
- Bruton Knowles subsequently found issues with the valuation and the results materially differ from the internal valuer's original valuation.

This would typically not be an issue given the valuation should always reflect the balance sheet date. However, this 4.08% was applied to the 80% of beacons not valued by Bruton Knowles. This transaction has the effect of reflecting the internal valuer's assumptions and methodology—which have been challenged and superseded by Bruton Knowles. The calculation of the 4.08% uplift is based on the average valuation movement on the original sample of beacons revalued by the Authority's internal valuers.

We were also not made aware that the internal valuation had been transacted.

The Authority has informed us that the Bruton Knowles valuation as of 1 April 2016 was effectively ignored due to the overall impact being "relatively small". To illustrate, Table 3 summarises the values from the May 2017 Bruton Knowles report and the internal valuer's report. Both retain the incorrect social housing adjustment factor to aid comparison.

**Table 3: Comparison of valuation results, 1 April 2016**

£'000	Internal valuers	Bruton Knowles	Difference
Valuation (social housing)	89,845	83,652	6,193

A difference of £6.2 million is material for the purposes of the Authority's accounts.

### *Further use of the incorrect social housing adjustment factor*

We were not initially provided with a copy of the internal valuer's report due to this valuation exercise being undertaken by the Authority's external valuers; we requested this on 20 April 2018. Upon receipt of the report on 30 April 2018, we reviewed and noted—again—that an incorrect social housing adjustment factor of 34% had been used. This was the social housing adjustment factor in the previous version of the guidance. The new guidance was released in November 2016 and applicable to valuations from 1 April 2016 onwards (see Table 2 on the previous page).

The use of 34% instead of 42% by the internal valuers is a material difference.

The reliance of the internal valuation is also an issue due to the same uplift calculated from the internal valuer's valuation, which as previously discussed, had been superseded by the Bruton Knowles valuation.

Our line of inquiry has also uncovered that whilst Bruton Knowles had adjusted for the correct social housing adjustment factor for its valuation as at 31 March 2017, this was not adjusted for its 1 April 2016 valuation. This is crucial as the valuation at the year end is a simple uplift of 7% on the 1 April 2016 figures, thus carrying forward the initial error.

We expect a significant audit adjustment to arise from this. The Authority is in the process of calculating and quantifying this difference.

### *Resolution*

The Authority has again commissioned Bruton Knowles to carry out a further valuation exercise for the valuation figures as at 1 April 2016 (due to the derivative nature of the year-end valuation).



We will review:

- the valuation instructions provided to Bruton Knowles, for the valuation as at 1 April 2016;
- the valuation report resulting from these updated instructions; and
- an updated reconciliation between the final valuation report and the fixed asset register.

We do not anticipate engaging the services of our KPMG valuation specialist; however, this may change depending on the outcome of this valuation exercise.

We will also need to reperform work previously undertaken due to the updated report, including but not limited to:

- reviewing the list of assets to be valued (the input) against the Authority's records. This is to ensure compliance with the Code's requirement that assets should be valued at intervals of not more than five years and against the Authority's own policy of a rolling valuation basis;
- we will also need to recheck that the assets' characteristics (value, type, etc) have been accurately provided to the valuer;
- reviewing completeness of the valuer's output; where there have been asset disposals, these will need to be agreed to the work previously undertaken;
- reviewing the reconciliation to be provided by the Authority; and
- reviewing the mathematical accuracy of the report.

Appendix 2 summarises the Council Dwellings valuation requirements and the various reports received.

## Other land and buildings

### *Underwoods*

Our KPMG valuation specialist had raised a number of queries in relation to the assumptions used by Underwoods due to the absence of documented information within the reports. These were finally resolved in October 2017.

Further work was undertaken to clarify and agree

specifics of the sampled assets, such as deeds and titles.

An adjustment that resulted from our valuer's review relates to purchaser's costs, which have not been consistently deducted from the assets reviewed in our sample. This adjustment has reduced the value of the Authority's assets by approximately £748,000, which is above our reporting threshold.

The work had also resulted in various other adjustments, including reclassification of assets from other land and buildings to investment properties.

### *Internal valuers*

## Investment properties

The Authority engaged Underwoods to value its portfolio of investment properties.

We were provided with two valuation reports:

- the first on 17 July 2017, which totalled £7.7 million. This did not match the Authority's draft financial statements (June 2017), which valued investment properties at £8.1 million—a difference of £0.4 million. We undertook our initial work on investment properties, and identified issues. This initial work was completed on 24 July 2017, and was based on this first version of the valuation report; and
- the second on 24 July 2017, which totalled £8.3 million.

Due to the differences (as noted above), we requested on 4 October 2017 that the Authority clarify and identify the correct report. We received a full explanation on 24 October 2017, which explained that the original value in the July 2017 accounts was incorrect, and the value per the valuation report dated 26 July 2017 was correct due to a reclassification of an asset into investment properties.

As with other land and buildings, our KPMG valuation specialist identified that Underwoods had not deducted purchaser's costs from the valuation of assets, thus overstating the Authority's investment properties.

We had low confidence on the robustness of the valuation process due to the issues of purchaser's costs, misclassification of assets, data quality, and

the difficulty in evidencing assumptions made by the valuer. As a result, we extended our sample to encompass 100% of all investment properties on the Authority's portfolio on 6 December 2017. Our KPMG valuation specialist undertook this work in December 2017.

## PPE assurance committee

Due to the various issues noted with PPE and investment properties as well as the incomplete responses received to our initial PPE queries, the Authority had put in place a "PPE task force" which was operational in October to November to check its responses to audit queries and ensure quality. Despite this, we still encountered issues which prolonged the audit process.

## Trial balance reconciliation

We requested a trial balance reconciliation as part of our initial audit documentation request. This has historically not been provided to the audit team. A workaround is typically used, where the trial balance is reconciled piecemeal per section, as each working paper typically contains an extract of the trial balance.

However in January 2018, there were concerns that the trial balance may not have been appropriately mapped due to recharges.

We formally re-requested a reconciliation between the trial balance and the Authority's draft financial statements on 23 February 2018. We received a working paper on 26 April 2018; however, we had a number of queries in relation to this. This is now being reviewed by our accounting technical advisors.

## Other completion work

A number of audit procedures will need to be re-performed due to the significant changes. These include the following areas:

- the cash flow statement;
- the depreciation substantive analytical procedure;
- the impact of revaluations/impairments on the CIES and reserves; and
- quantifying a full list of audit adjustments.

We have yet to begin work on the consolidation of the Authority's group accounts; this will take place

once the Authority's single-entity accounts have been finalised.

Our work will also need to undergo our usual review process, which could not have been undertaken due to the evolving nature of the Authority's accounts.

A full list of adjustments will be presented to the Audit Committee upon completion of our work.

## Update on the audit fees

We stated during the Audit Committee on 27 September 2017 that the additional cost in relation to the additional work and ongoing delays to the audit was likely to be £71,250. This was discussed with the former Chief Finance Officer (S151 Officer) and subject to PSAA approval.

Eight months have passed since that initial estimate. Due to the planned nature of our approach to scheduled audits, the additional responsive work which we had to undertake was predominantly fulfilled by senior staff. We also had to engage additional services from our KPMG valuation specialist due to the issues found and the lack of readily-available evidence to support the valuations.

This highlights the importance of robust management review and the provision of clear audit working papers within the agreed timeframes.

We will be discussing our final proposed fee with the Authority's Chief Finance Officer which will reflect the additional amount of work needed to gain assurance over your financial statements.

## 2017/18 audit

As the audit of the 2016/17 financial statements is on-going, we are yet to issue our 2017/18 audit plan. We have commenced our planning work in relation to 2017/18 and have held discussions with the Authority regarding the appropriate timing of the audit. We will issue an audit plan and update the Audit Committee ahead of any fieldwork.



# Appendix 1

External audit letter, September 2017



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Our ref      DH/AC/NBC  
  
Contact      Daniel Hayward  
                 0121 232 3280

29 September 2017

Dear Glenn,

**Northampton Borough Council – 2016/17 External Audit progress**

Following the Audit Committee on Wednesday 27 September 2017 I am writing to you to provide an update regarding the status of our audit.

At the Audit Committee I had highlighted the potential risk that the audit may not be completed and the audit opinion issued before 30 September. Unfortunately as I have discussed with you this risk looks likely to be realised, and I know you share my disappointment in this situation. My team and I, as well as your team, have worked tirelessly to try avoid this situation, however, and again as discussed I am of the view that we have not as yet performed sufficient testing nor obtained sufficient evidence to enable me to issue an opinion.

As you are aware and as noted at the Audit Committee, and as per previous discussions with yourself, other Officers and Members at the time, our work to that point had identified a significant number of issues relating to the Authority's fixed assets, including but not limited to the valuation of social housing, other land and buildings, and investment properties, as well as the methodology adopted towards componentisation.

Whilst significant work has been undertaken by both my audit team and your Closedown team in order to respond to and address these issues, the result of our findings so far has provided me with insufficient assurance that your financial statements present a true and fair view in this respect and many of these issues remain unresolved.

Due to the number of areas of concern and errors found during KPMG's valuer's review of a sample of assets, my consideration in consultation with KPMG colleagues is that resolution of these specific issues currently would not provide sufficient audit assurance that the remaining population of assets, not sampled, are appropriately valued. Therefore there remains a risk of possible material misstatement.

Given the issues identified, and unanswered questions remaining around the reporting from the fixed asset system, this also brings into question the accuracy of those assets which have not been revalued in the year, transactions processed during the period and the accuracy of overall reporting and disclosures in this respect.

As you will no doubt appreciate the responsibility for ensuring that a materially correct set of accounts is presented for audit lies first and foremost with you as the section 151 officer. At this stage we think that there is still an uncertainty surrounding the robustness of the valuation that would enable you to be able to discharge your statutory responsibilities.

It may be very likely that there is no change in the values in the accounts, I certainly hope that is the case. However, we will only be able to judge this when we have completed our testing and evaluated the evidence.

We are hoping to complete the audit as quickly as possible and I am aware that my team is in discussion with your team on what testing we still need to complete and what evidence that needs to be collected. Whilst we need to do this as quickly as possible I also am conscious that we need to avoid the situation of information being given to us in haste that raises further questions that often take longer to clear. We will be working with your team to try and avoid this situation.

If you have any questions please do not hesitate to contact me.

Yours sincerely



Andrew Cardoza  
**Director, KPMG LLP**

*cc: Northampton Borough Council Audit Committee*



# Appendix 2

**Council Dwellings revaluation requirements**

# Council Dwellings revaluation requirements

## The Code requires the Authority to value Council Dwellings in line with the requirements of the MHCLG’s Stock Valuation for Resource Accounting (SVRA), updated November 2016.

The Code guidance states:

C50: It is common practice for valuations in local government to be made as at 1 April. However, the general requirement to ensure that transactions and balances are not materially misstated might make necessary a valuation as at some other date. The historical experience of 2008/09, when there was a substantial slump in the property market during the year, shows that 1 April valuations cannot always be relied on when preparing the 31 March Balance Sheet.

What this means in practice is that there are two valuation exercises in year:

— **The first full valuation at the start of the financial year (dated 1 April).** This is carried out in accordance with the MHCLG’s SVRA. Northampton Borough Council has opted to value 20% of its housing stock on a rolling basis, using the beacon methodology. The valuation of the remaining 80% is then informed by the results of the full valuation on the 20% of beacons. This is in line with the SVRA.

— **An impairment review or an indexation, depending on the market and valuer’s professional judgement.** This is often linked to housing indices published by leading building societies, the Land Registry, and other industry sources. This is tailored to local circumstances where appropriate using the valuer’s professional judgement.

Each of the valuation exercises is then discounted using the social housing adjustment factor to arrive at the Existing Use Value – Social Housing (EUV-SH). This factor is applied to both the 1 April and 31 March valuations.

### Summary of Council Dwellings valuation

In order to summarise the valuation reports to date, we have adopted the referencing convention in Table 4 below. Overleaf in Table 5, we have summarised the work on each valuation report and our findings. Note that this ignores the valuation exercise from Underwoods as it was deemed non-compliant. Table 4 also summarises the valuation dates.

**Table 4: Council Dwellings valuation reports**

Valuer	Ref	Valuation date	Adjustment factor	Full/indexation	Date of report
Internal	VAL1	1 April 2016	34%	Full	Not dated, pre October 2016
Internal	VAL2	31 March 2017	N/A – not available	N/A – not available	N/A – not available
Bruton Knowles	VAL3	1 April 2016	33%	Desktop	} 31 May 2017
Bruton Knowles	VAL4	31 March 2017	33%	Indexation – 10%	
Bruton Knowles	VAL5	1 April 2016	33%	Full	} 22 September 2017
Bruton Knowles	VAL6	31 March 2017	42%	Indexation – 7%	
Bruton Knowles	VAL7	1 April 2016	42%	Full	} Pending as at the time of writing
Bruton Knowles	VAL8	31 March 2017	42%	Indexation – 7%	

**Table 5: Summary of review and findings**

Ref	Valuation date	Summary
VAL1	1 April 2016	Original valuation, which triggered the review from Underwoods and subsequently, Bruton Knowles. Date of the report is not disclosed, but instructions were provided by the Authority in September 2016, and the report was challenged by Finance in October 2016 (see Appendix 3).
VAL2	31 March 2017	N/A – valuation not used due to the valuation process being outsourced and superseded by the Bruton Knowles valuation exercise.
VAL3	1 April 2016	<p><b>For both VAL3 and VAL 4:</b> We determined that the valuer had used 33% for the social housing adjustment factor for its valuation exercise. This was subsequently revised to 42% which is in line with the guidance (see discussion on page 4 of this report, and within our <i>External Audit Report 2016/17 (ISA 260)</i>.</p> <p><b>For VAL4:</b> Our KPMG valuation specialist challenged the use of 10% indexation in VAL4 due to dependency on one data source. This was subsequently revised to 7% in VAL6.</p>
VAL4	31 March 2017	
VAL5	1 April 2016	<p><b>For both VAL5 and VAL6:</b> We requested a reconciliation between this report and the Authority’s fixed asset register. The reconciliation process has shown that VAL5 was not transacted; instead, VAL1 was transacted despite the known issues found by Bruton Knowles. This is now a new audit finding as VAL1 had crucially used an adjustment factor of 34%.</p> <p>Our query has also uncovered that the incorrect adjustment factor as identified in VAL3 and VAL4 was not corrected for VAL5; only VAL6 had the correct adjustment factor. The Authority has since agreed to amend VAL5 and use VAL5 instead of VAL1.</p>
VAL6	31 March 2017	
VAL7	1 April 2016	Both reports are pending as at the time of writing.
VAL8	31 March 2017	

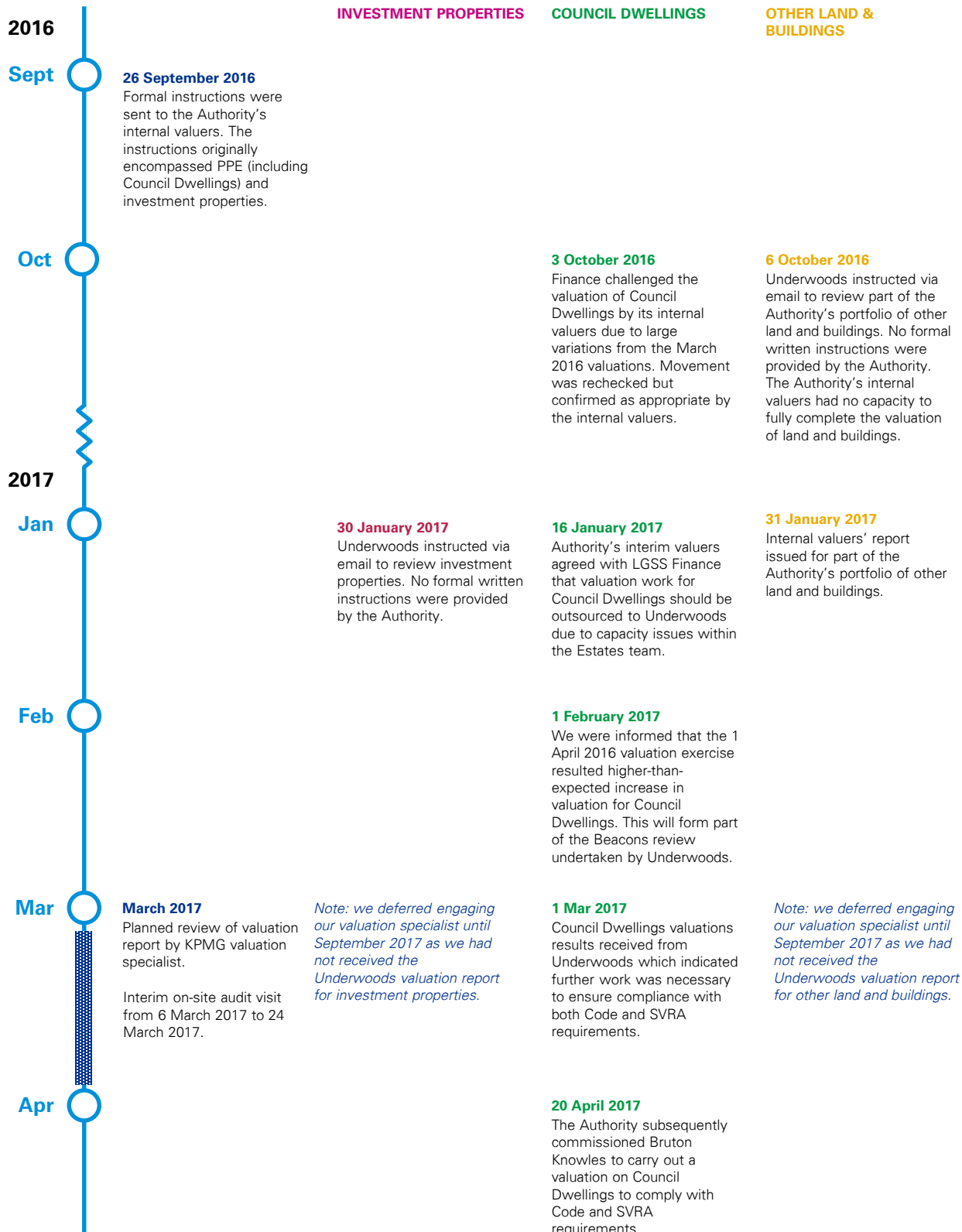


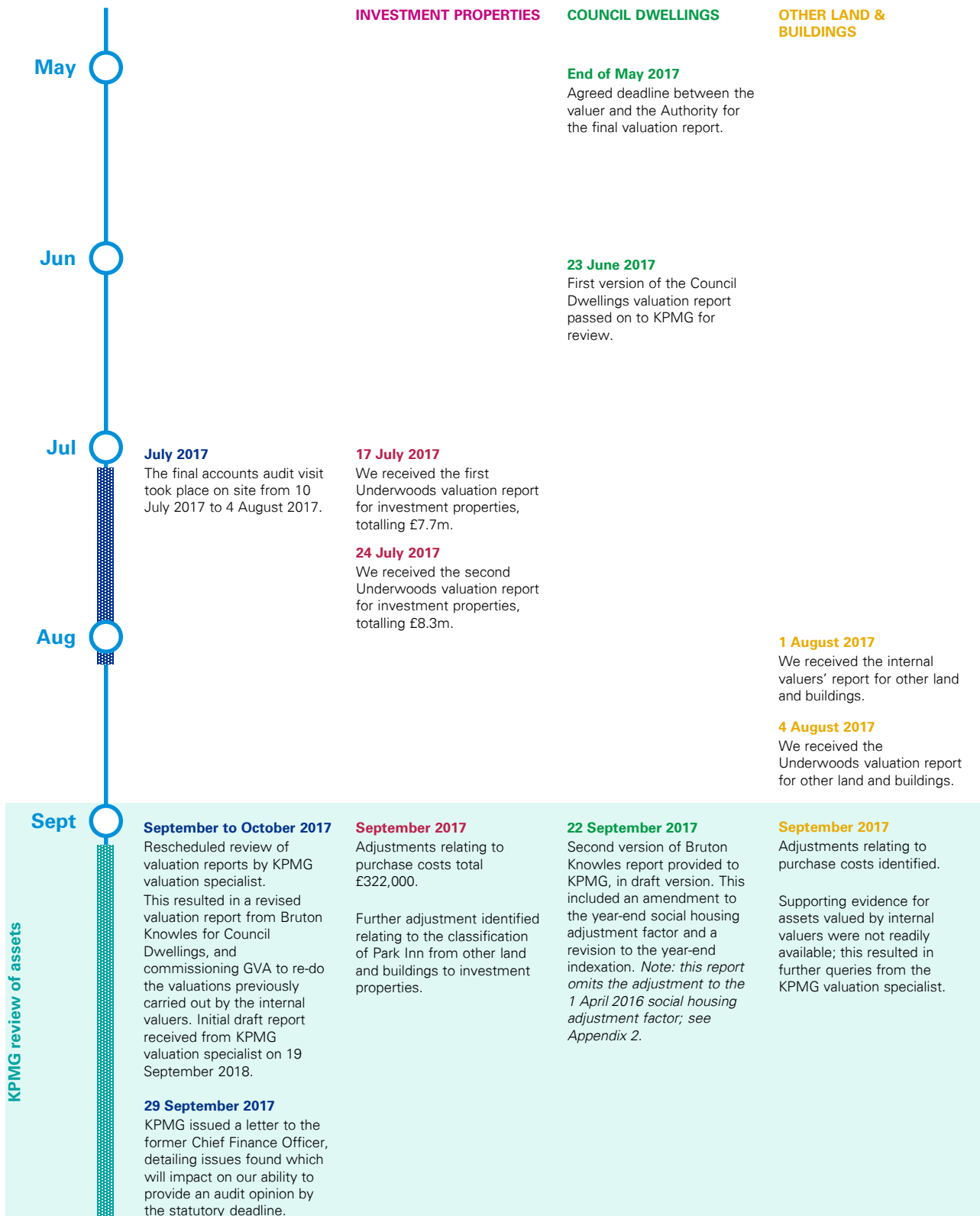


# Appendix 3

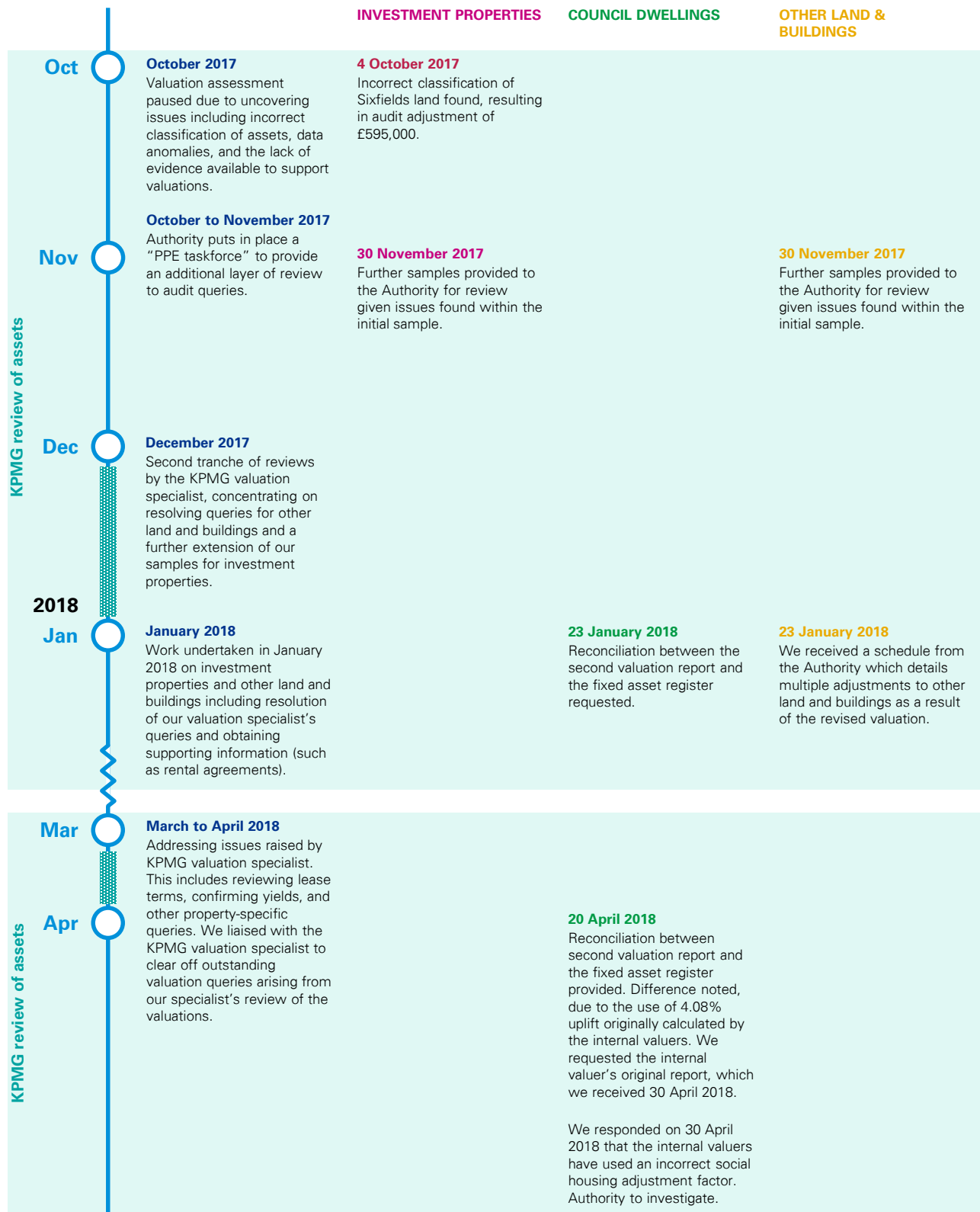
**Timeline of key events relating to PPE and investment properties**

# Timeline of key events for PPE & investment properties

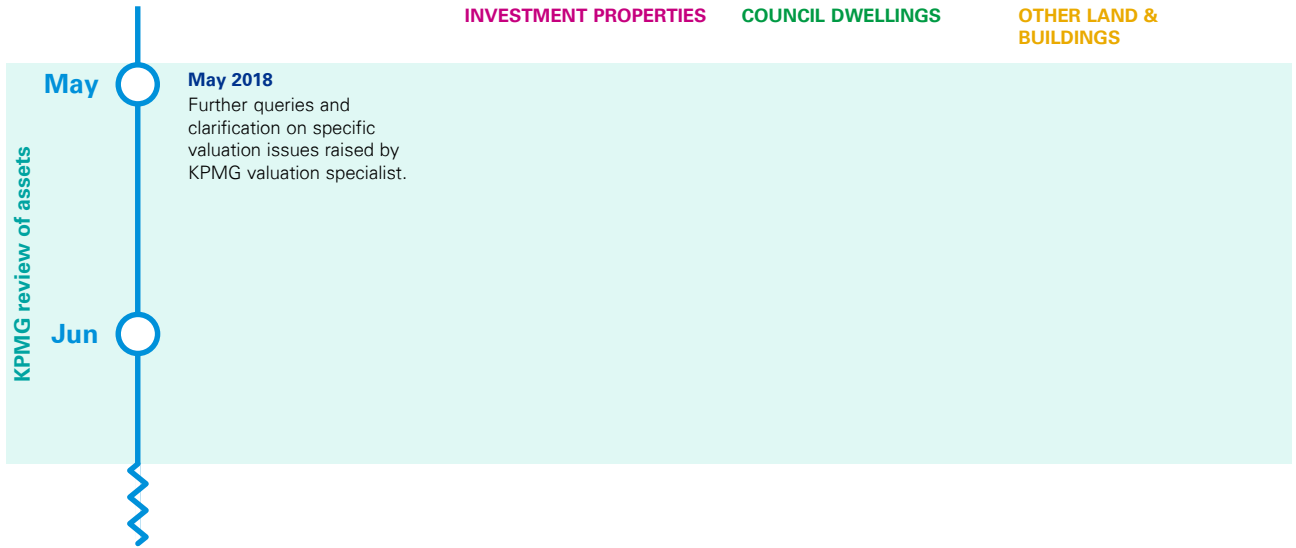




# Appendix 3



# Appendix 3





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