NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Wednesday, 27 September 2017

PRESENT: Councillor Oldham (Chair); Councillors Golby, J Hill, Marriott, Stone and Flavell

8. APOLOGIES

Apologies were received from Councillor Chunga and Councillor M Markham, who was substituted by Councillor Flavell.

2. MINUTES

The Minutes of the meeting held on the 11th September 2017 were confirmed and signed by the Chair as a true record.

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. KPMG ISA260 REPORT

The External Auditor submitted and circulated the report, and apologised to the Committee Members for the delay in the delivery of the report. As the audit had been high risk, more work had to be undertaken in order for it to be completed. It was explained that a previous report had been discussed on the interim work presented in the External Audit Interim Report in July 2017; an additional and significant risk had been identified, which was the valuation of '*other land and buildings'* and investment properties. It was explained that significant work was still ongoing most notably in relation to the Authority's fixed assets, which had caused delays to the valuation process and issues found in relation to the valuation exercise.

The External Auditor advised that the change from a low risk to high risk audit was due to the ongoing issues relating to the loan to Northampton Town Football Club which had reduced the materiality level for the audit work. It was noted that they had adopted a risk-based workplan to consider whether in all significant respects the Authority had proper arrangements in place to ensure it had taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. They concluded that the Authority had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and they would therefore anticipate issuing an adverse value for money opinion.

It was noted that for the year ending 31st March 2017, the Authority reported under the provision of services total income of £290 million against expenditure of £261 million which had resulted in a net surplus of the provision of services of £29 million. It was explained that a large balance of this related to the change in social housing discount factor, although from the information that they had been provided with, this could not be quantified.

The External Auditors identified the ’Valuation of Council Dwellings’ as a significant audit risk. It was explained that the authority had engaged an external valuer to undertake a comprehensive review of 20% of the beacon assets used within the valuation of the Authority’s housing stock. However, it was noted that those beacon assets may not be representative of the housing stock and this could result in them being over or under valued on the balance sheet. They further identified risks involving the capacity within the Estates Team and the subsequent use of three external teams of valuers, the results of which were queried by the External Auditors. It was reported that the desktop Beacon review and valuation that had been undertaken was not sufficiently robust. It was further noted that no report had been provided to the Auditors for some of the valuations as per Code requirements; the requirements for a clear valuation report had been specifically highlighted in the KPMG ISA 260 recommendations reported in the previous year.

In further reference to the ‘Valuation of Council Dwellings’ it was explained that the Authority’s valuer had applied a social housing discount factor of 33% (applicable to the South East) and noted that other local authorities with housing stock within Northamptonshire had used a social housing discount factor of 42%, consistent with the DCLG guidance on Stock Valuation for Resource Accounting (SVRA). It was noted that the SVRA states that “*the reason for departing from the factor provided…..must be clearly stated by the valuer together with the methodology and sources of evidence adopted for preparing the alternative”* which the Authority’s valuer was not able to provide to KPMG’s satisfaction. It was further reported that the difference between using the 33% and 42% was £121.7 million and thus by adopting the social discount figure of 33%, the Council had understated the value of its Council dwellings by £121.7 million. It was noted that the Council had since agreed to amend the social housing discount factor in line with the Department of Communities and Local Government (DCLG) guidance.

The External Auditor explained that a further significant audit risk identified was the ‘Valuation of ‘*other land and buildings’* and investment properties. Similarly to the valuation of Council dwellings, it was explained that the Council had engaged external valuers to carry out work but that there had been no formal instructions to confirm this and therefore KPMG were not able to confirm that the external valuers had complied with the valuation request and additional work needed to be undertaken to reconcile the list of assets reviewed against the valuers output. It was further noted that the external auditors had not been able to confirm that the Council had instructed the external valuer in line with the requirement of the Codes and specialist valuers from KPMG had to perform additional substantive work to provide assurances that the valuation were in line with applicable standards. The work was on-going and when concluded would be reported to the Audit Committee.

Other areas of audit focus included the disclosure associated with retrospective restatement of a number of financial statements including the CIES, EFA and MiRS. It was noted that in conjunction with the new CIES, the Code requires that the analysis of expenditure include depreciations, amortisation and employee benefit expenses, which was missing from the Authority’s initial draft accounts. Referring to the Changes in the Non Domestic Rate (NDR) system, it was noted that from the Council’s documentation that a significant number of integrity checks had not been done and as of April 2017, there were 998 such cases totalling £5.1 million.

It was noted that the quality of audit evidence initially provided to the external auditors did not fully align to their expectations which had been set out in the Accounts Audit Protocol 2016/17 and highlighted the following issues:

a) They were not provided with a full fixed assets register including the breakdown of fixed assets additions

b) They were not provided with the valuation reports prior to the start of the final audit, as previously agreed with the Authority,

c) The breakdowns for both debtors and creditors were incorrect and did not tie back to the accounts

d) Working papers for payroll did not have robust audit trails, which made it difficult to understand what had been provided.

Referring to the summary table on control deficiencies for key financial systems, the External Auditors commented that a number of additional findings had identified a number of deficiencies.

The Committee were informed that following the departure of the Chief Executive Officer during the period between 1st August 2017 and 6th September 2017 the Authority was in breach of legislation and did not have a Head of Paid Service in place as no interim measures had been prepared to deal with the departure of the previous Chief Executive. It was noted that Section 4 of the Local Government and Housing Act 1989 provides that it is the duty of every Local Authority to designate one of their officers as its Head of Paid Service.

A summary of the assessment of the individual Value for Money (VfM) risks was reported and the following risks identified;

Financial resilience in the local and national economy
Governance Action Plan
NTFC loan and the wider loans system
Procurement
Chief Executive departure

The External Auditor referred to a number of recommendations in a summary provided for 2016/17 and noted 5 high priority issues raised from the year-end audit, 3 medium priority issues and 1 low in total raised for 2016/17. It was noted that in the previous year, KMPG had raised ten recommendations which had been reported in the *External Audit Report 2015/16 (ISA 260).* It was reported that the Authority had not implemented all of the recommendations and that the auditors reiterated the importance of the outstanding recommendations and the implementation of these by the Authority.

In reference to the audit fees, it was noted that during the audit, KMPG experienced quality issues with working papers and a number of delays outlined within the report. It was noted that additional fees of approximately £71,250 had been discussed with the Section 151 Officer which were subject to PSAA approval.

Councillor Nunn, addressed the Committee and thanked KPMG for their work and explained that the issues that had been raised in their report, specifically relating to Assets and Valuers had been acknowledged and that significant work was being done to resolve the issues. It was reported that there had been a number of problems with the recruitment and retention of staff and issues experienced since the implementation of IR35.

In response to questions asked, the Section 151 Officer explained that the Authority was prepared for potential issues it may face due to the Environmental Services Contact and therefore there would be limited contributions to reserves and other means will need to be explored in order to invest in pump priming initiatives.

The Committee raised concern about the fragility of the Assets Team and the number of Interims at previous meetings and further reported that there were some concerns that the many aspects of the Governance Action Plan (GAP) may partly paralyse the Council as bureaucracy and aversions to risks could potentially hinder the decision making process.

The External Auditor noted that a lot of effort had been put into the GAP and its effectiveness would be measurable once more work was underway and explained that there was a need for good governance to be put in place and evidenced through the decision making process. The risks associated with the Assets Team and the lack of historical background were acknowledged.

Members of the Committee commented that it was not a positive report and were aware of the need for improvements, specifically with regards to the valuation of dwellings; the External Auditor confirmed that there had been an operational oversight on the vacation process.

The Section 151 Officer explained that they took the recommendations of the External Auditors extremely seriously and noted the importance of recognising the issues and failings in order to improve and noted that there was a need for the Authority to work more closely with KPMG to address the concerns and recommendations.

In response to a question asked by the Committee, the Borough Secretary & monitoring officer explained that there was a legal requirement for a Head of Paid Service to be in post and that had been contravened when the former Chief Executive departed the Authority but explained that the risk had been deemed as low and noted that the powers of the Chief Executive had been delegated to him as the Monitoring Officer.

The Interim Chief Executive addressed the Committee and explained that he would take a personal interest in the Governance of the Authority and as a former Monitoring Officer had would be keen to promote and drive forwards good governance.

RESOLVED:

That the report was noted.

7. FINAL STATEMENT OF ACCOUNTS

The Chief Finance Officer submitted a report and noted that the recommendations of from the External Auditors would be taken extremely seriously and therefore recommendations may need to be changed as a consequence. It was noted that the Statement of Accounts (SoA) had been produced in line with the statutory timescales and had been subject to external audit by KPMG. It was noted that the biggest change was in relation to the value of Council dwellings and the social housing discount factor that had been applied. The original discount rate applied to the draft SoA was 33%, this was now changed to 42% in line with DCLG Guidance, resulting in an increase of value of £85 million, and there had also been movements in unusable reserves and the CIES statement resulting from this.

With regards to Property, Plant and Equipment (PPE) it was reported that the impact of changes were not just evident on the balance sheet; there was a knock on effect on other parts of the accounts including the Group Accounts and the Housing Revenue Accounts (HRA). It was explained that in unless further adjustments came out of the recommendations of KMPGs ongoing work, the updated report that was presented to the Committee was considered final.

The Committee were advised that when the full valuation was done on site (in person) for the 20% of the beacon properties the outcome was the same as the desktop exercise previously completed.

It was explained that when the Council's External Valuers had selected a number of more appropriate beacon properties the resulting decrease in valuation of the 20 % population was only 2.2% and it was not possible to decipher if this was due to changing beacons and/or change in the valuers. It was further explained that the valuation was an estimation process and was considered to be very clear and transparent.

In response to a question asked relating to the real effects of the adjustment. Responding to further questions, it was confirmed there was no cash adjustment and that it was solely for accountancy balance sheet purposes, with no effect of Council tax or Housing rent levels. The valutations obtained for council dwellings were used in preparing the year-end accounts and were not used for individual council house right to buy sales

The Section 151 Officer explained in respect of Council right to buy sales there was a stringent code that the Council adhered to and that guidance was followed from CIPFA & DCLG.

RESOLVED:

1. That the draft Statement of Accounts 2016/17 be approved

2. That the AGS signed by the Leader and Borough Secretary, acting on behalf of the Chief Executive, be acknowledged

3. That, in the event of further changes being required following finalisation of the External Auditors work, authority be delegated to the Chair of the Audit Committee, in consultation with The Section 151 Officer and Deputy Chair to sign a revised set of the accounts. Any further changes will be reported back to the next Audit Committee.

The meeting concluded at 8.21pm