External Audit 2016/17 Interim Report

Incorporating external audit technical updates

Northampton Borough Council

–

April 2017

Summary for Audit Committee

Financial statements: interim audit

This document summarises the progress we have made to date with our 2016/17 external audit at Northampton Borough Council ('the Authority'). Our controls and substantive work are completed over two tranches of fieldwork: our interim audit and our final accounts audit. We completed our on-site interim audit in March 2017 and our findings are summarised on pages 5-8.

Our interim audit also covered the understanding and testing of the Authority's key IT systems.

Based on our interim work, we have raised one recommendation. We will re-assess the status of these recommendations at our final accounts audit in July 2017. Details on our recommendations can be found on page 14.

Use of resources

We have also commenced work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We had identified four significant value for money (VFM) risks which we have previously communicated to you. See further details on page 9.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Audit Committee to note this interim report.

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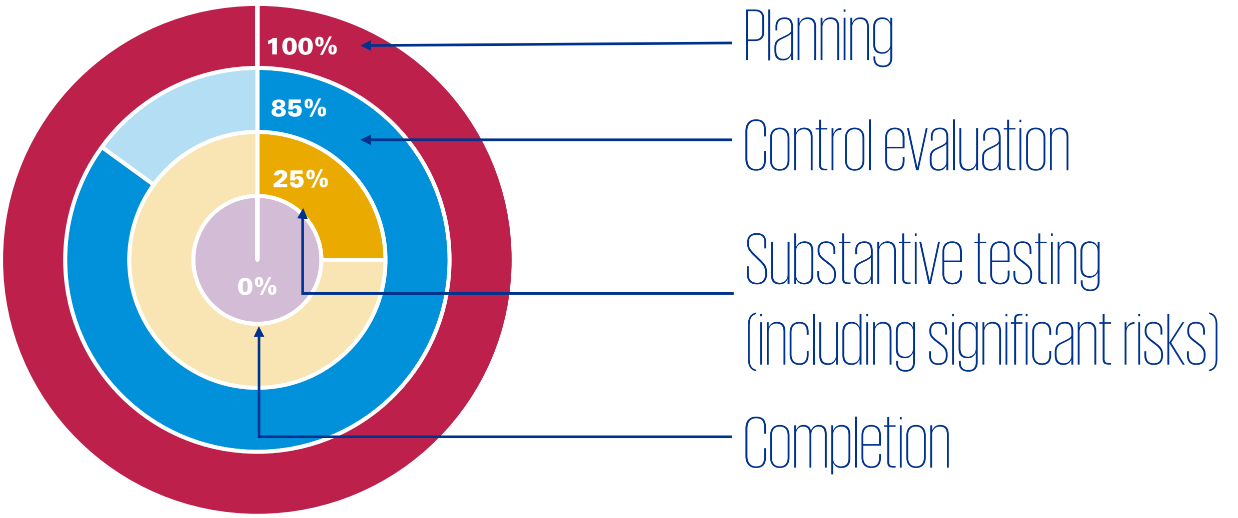
Contents

Section one

Financial statements

Financial statements

In our detailed *External Audit Plan 2016/17* presented to the Audit Committee we outlined the four stages of our audit process. The graphic below summarises the progress we have made in terms of the four key aspects of our work.



Planning and control evaluation

We summarise below the key tasks which we have performed to complete the first two stages of our accounts audit.

Business understanding	– In our *External Audit Plan 2016/17*, we assessed your current operations to identify significant issues that might have a financial consequence. – We have provided an update on the key accounts audit issues on page 6.
Assessment of the control framework	– We conducted our on-site interim audit during the week commencing 6 March 2017 and have continued regular dialogue with the Integrated Closedown team and the Finance team as they have continued to undertake work to address our significant risks. We have assessed the effectiveness of your key financial system controls in place that prevent and detect fraud and error. – We had planned to perform control work over journals however the reconciliation of the journal listing to the general ledger was not provided to us for the interim audit and we therefore agreed with the Authority that this work would be delayed until final audit when the reconciliation could be provided. – We have given due regard to the work of both LGSS Internal Audit and PwC and recognise that your internal auditors have provided substantial assurance over your creditors and payments, and income and debtors systems.
Prepared by client request	– We produce this document to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements of the Authority. – Prior to finalising this request, the audit team met with members of the Integrated Closedown team to ensure all queries were understood. Deadlines were agreed to ensure a smooth process.
Accounts production	– We have discussed the Integrated Closedown team's plans for the preparation of the annual accounts ahead of required submission by 30 June 2017. A key member of staff has recently left the team which exposes the Authority to the risk that this will impact its closedown procedures. We understand an interim replacement has recently been recruited.

Financial statements (cont.)

We have performed work in relation to the significant audit opinion risks identified during our planning phase. Our *External Audit Plan 2016/17* sets our proposed procedures, and we have summarised our work to date:

Significant audit opinion risks	Our work to date

Valuation of Council Dwellings	— In December 2016, we agreed with the Authority that we would bring forward elements of our year-end audit in order to streamline the final audit in July. Key to this was our early review of the 1 April 2016 valuation.
	— In January 2017, we met with Council Officers to discuss arrangements for the external audit. We were informed that there was a higher-than-expected increase in the valuation of council dwellings. In response to this, the Authority commissioned an external firm to review its Beacon properties in order to assess appropriateness. The Authority has acknowledged concerns with the capacity of its Estates team. The Interim Head of Estates has left the Authority in addition to other interim valuers within the team. The engagement of the external valuation firm was intended to address this concern.
	— The audit team received a preliminary version of the valuation exercise early March 2017. We challenged the results of this as:
	    — we were not able to review instructions provided to the valuer nor assess if the review was carried out in line with the instructions provided;
	    — the valuation output did not set out the assumptions used by the valuer in forming its opinion;
	    — there was no confirmation from the valuer that the Beacon review had been carried out in line applicable guidance specific to council dwellings, such as the DCLG's Stock Valuation for Resource Accounting (updated November 2016).
	— After considering our challenge, the Authority appointed a different external valuation firm with the capacity to undertake this updated review. The Authority has determined that this new external firm will be able to demonstrate compliance and experience with applicable guidance specific to the valuation of council dwellings. This new external firm has also been engaged by Milton Keynes Council to carry out a review of its council dwellings, and the closedown team had leveraged its existing relationship with Milton Keynes Council in identifying this external valuation firm.
	— We understand that the Authority has received the results of this second valuation towards the end of May and this is being assessed internally.
	— We will continue to liaise with Management and our KPMG valuers who will review the valuation output once finalised to ensure the valuations were carried out in line with applicable guidance and aligns to expectations.

Financial statements *(cont.)*

Significant audit opinion risks	Our work to date
Significant changes in the pension liability due to the LGPS Triennial Valuation	— We undertake a review of the pensions submission to the Authority's Pension Fund. We tested that the payroll data submission that was sent to the Fund was complete and accurate and found no issues. This is an improvement on prior year where a recommendation was raised regarding this. — The work and testing over the triennial valuation will be undertaken as part of the year end visit. KPMG have shared the audit protocol document for this work. As highlighted in the *External Audit Plan 2016/17*, this will result in extra costs.
Management override of controls	— We have used Data and Analytics (D&A) over the Authority's transactional data to test 100% of expenditure and payroll transactions from month 1 to month 9. — As at the date of this audit report, D&A over Accounts Payable and Payroll has been performed and is being shared with the Council Officers for their review and comment. The work on payroll highlighted a number of exceptions which highlighted that incorrect data was shared with us prior to the work being undertaken. A new report has been provided and our results will be updated. This however has led to a duplication of work and extra time required. — D&A over journals will be performed at year end as agreed with the Integrated Closedown team and the Officers have committed to providing journal data by 31st May in order for us to undertake our analysis and testing, and provide results to the Authority prior to our on-site visit to aid with the efficiency of the audit process. This delay was a result of the Authority not being able to reconcile their journal listing to the General Ledger.

Financial statements *(cont.)*

We have performed work in relation to potential risk areas, but are less likely to give rise to a material error. We have summarised our work to date:

Other areas of audit focus	Our work to date
Disclosures associated with retrospective restatement of CIES, EFA and MiRS	— Through the Authority's new Integrated Closedown team, the Authority intends to adopt the model developed and adopted by the Integrated Closedown team in relation to the CIES, EFA and MiRS. — We understand that this process is still in its early stages. We have requested a copy of working papers to support this restatement prior to the year end audit to support the Council in this complex restatement process.
Change in the Non Domestic Rates (NDR) system	— Our IT team are working with officers to review changes in the Revenues and Benefits system, Academy Capita. The operation of system was brought back from Borough Council of Wellingborough to LGSS Revenues during the financial year. We therefore scoped the system into the work plan of our IT specialist team to review the data transfer and the new system. — The work will be completed imminently and we will report on our findings in the *ISA 260 report.*

Section two

Use of resources

Significant VFM risks are key risks which require specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Significant VFM risks	Our work to date
1. Governance Action Plan	**Risk** In December 2016, the Authority's internal auditors, PwC, issued a report on the Authority's Risk Management Policy and framework and to advise the Council on best practice. This was in response to the loss of £10.22 million in relation to the loan to Northampton Town Football Club (NTFC). The Authority developed a Governance Action Plan based on the recommendations raised by PwC. This plan is a fundamental document for the Authority which contains all 11 recommendations made within PwC's report. There is a risk that issues and recommendations raised within the report are not addressed by the Authority. **Interim/Preliminary assessment and work undertaken** We have obtained the Governance Action Plan that was presented to Audit Committee on 5th December 2016. We reviewed and noted the actions reported to Audit Committee on 6th March 2017. We note progress in many areas and have picked out the priority actions which also feed into our audit approach. We have performed work in a few of the priority areas as below: — *Due Diligence – Priority 2* A loans checklist has been developed and implemented as a result of our ISA 260 recommendation from 2015/16. Existing loans are now subject to enhanced monitoring. As part of our audit work we have reviewed the monitoring over the loans. For more information on our loans work, see VfM risk 2 overleaf. — *ISA 260 – Priority 4* As part of our interim audit, we have reviewed the Management Action Plan Progress Tracker. We appreciate the work that has gone into compiling this and have found this a helpful tool. We note significant progress has been made on previous recommendations and have followed up formally in Section Three. — *Retrospective Orders – Priority 8a* As part of our audit approach we have used Data and Analytics to highlight those Purchase orders which are dated post invoice and goods received notes dates. At the date of this report, the data is being analysed and we will report our findings in our ISA 260. We will continue to monitor progress throughout the audit. All risks and recommendations raised within the report are currently being addressed and the Authority are taking comments and recommendations on board.

Use of resources (cont.)

Significant audit opinion risks	Our work to date
2. NTFC loan and the wider loans system	**Risk** In 2015/16, the Authority wrote off the outstanding loan given to Northampton Town Football Club (NTFC) due to failure of NTFC to make payments between May and September 2015. We issued an adverse conclusion on the Authority's arrangements to secure value for money. We were not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's arrangements in relation to loans are adequate. Subsequent to the loss of the £10.22 million, the Authority has approved up to £950,000 to be spent on recovering the lost monies and professional fees in relation to this matter. This is approximately 9% of the lost loan. These funds originated from the Authority's earmarked reserves. **Interim/Preliminary assessment and work undertaken** From the £950,000 authorised, the Authority has spent or committed a large proportion to date. Despite this, the Authority has not had any success in recovering the lost monies. We also note the High Court's ruling on 16 March 2017 against the Authority in relation to the Authority's claim on £180,000 from the former chairman of NTFC. We acknowledge that in May 2016 the Council has obtained a legal charge over half of the proceeds of the sale of the former chairman's property. Nonetheless, this is subject to the Authority's legal case being successful and the crystallisation of the proceeds from the sale. The circumstances surrounding the loan issued to NTFC are currently the subject of a police investigation. In 2015/16, we have also received an objection on the financial statements in relation to the NTFC loan. Our review into this is still outstanding due to the ongoing police investigation. Nonetheless, the circumstances and findings which arose from these formed part of our adverse VFM conclusion. Our VFM assessment for 2016/17 will also take these and the ongoing expenditure into account and is likely to be consistent with our conclusion in the prior year. During the interim audit, we have considered the Authority's wider loans system and reviewed the processes behind the monitoring of the repayments of loans. For the Authority's remaining four loans, we have agreed due payments in year to cash received by the Authority. There were no issues noted. We are also aware that no soft loans have been issued in the year to date and have confirmed with Officers that there are currently no plans to do so. The Council has developed a list to be used should there be a loan issued going forwards; this list will be reviewed during our year end audit.

Use of resources (cont.)

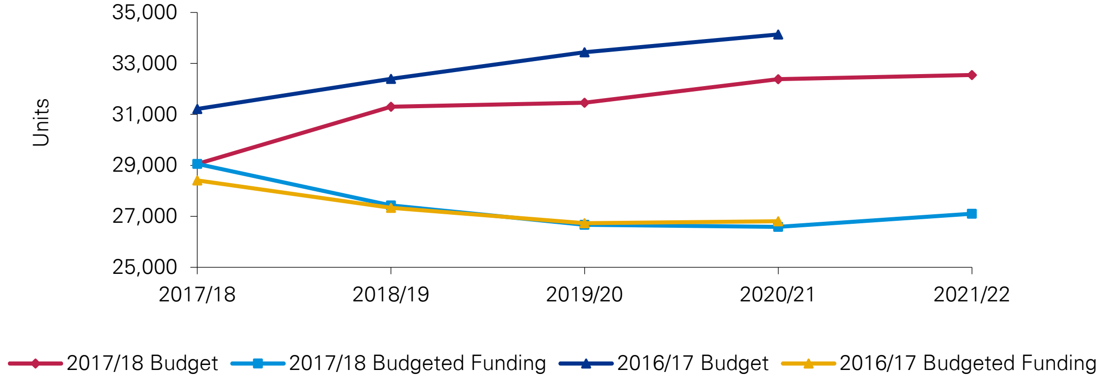
Significant audit opinion risks	Our work to date
3. Procurement	**Risk** We identified management override of controls as a significant audit risk (see page 7). Linked to this risk is the resulting impact on the Authority's procurement process. Non-pay expenditure was approximately £11.5 million (37% of total cost of services expenditure) in 2015/16. Discussions with NBC's internal auditors (PwC and LGSS Internal Audit) have highlighted that this is an area which has not been assessed in the last few years, which gives rise to a significant VFM risk. This is also linked to our prior year recommendations (see our ISA 260 reports in 2014/15 and 2015/16) where we recommended that the internal audit of key operational areas should be better co-ordinated between NBC's two internal audit providers. **Interim/Preliminary assessment and work undertaken** Four contracts were awarded in year. We have reviewed the tendering process for the four contracts to ensure that appropriate review of tenders was performed and analysed and that contracts were awarded in line with the Authority's procedures. We are still waiting to hear back from Council Officers regarding two contracts despite a number of follow up emails. No issues were found with the two that we have been able to review. Our work over accounts payable using Data and Analytics is ongoing and will be reported back in the *ISA 260 2016/17*. We will perform further work as part of our year end visit around the declarations of interests over suppliers.
4. Financial resilience	**Risk** In December 2016, the Authority published a draft Medium Term Financial Plan 2017/18 – 2021/22 (which incorporates its Efficiency Plan published on September 2016) that sets out a balanced budget for 2017/18. From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored by the management board. The Authority's proposed new governance arrangements include a specific Officer Board focussed on the delivery of the Efficiency Plan and associated improvement projects. **Interim/Preliminary assessment and work undertaken** In the current year, forecast outturn is expected to be £0.5m less than budget. Despite staffing pressures and use of agency, the Authority has been able to make the required budget savings. We will review this again at year end. We have reviewed the MTFP and a balanced budget has been set for 2017/18. *(continued overleaf)*

Use of resources (cont.)

Significant audit opinion risks	Our work to date

4. Financial Resilience
(continued)

MTFP income and expenditure



MTFP						
£'000	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
2017/18 MTFP						
Budget	-	29,059	31,300	31,458	32,385	32,544
Budgeted funding	-	29,059	27,428	26,667	26,586	27,100
Funding gap outlook in 2017/18	**-**	**-**	**3,872**	**4,790**	**5,799**	**5,444**
2016/17 MTFP						
Budget	30,601	31,216	32,393	33,441	34,139	-
Budgeted funding	30,601	28,409	27,333	26,731	26,807	-
Funding gap outlook in 2016/17	**-**	**2,807**	**5,060**	**6,710**	**7,332**	**-**

We will update our view on the outturn throughout the course of the audit. Given the gap of £3.9m for 2018/19 in new funding and new expenditure, the Authority will continue to face pressures and it is important to make and achieve savings.

We will also review:

- The arrangements for assuring delivery of the Authority's savings programme;
- The delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan;
- The arrangements the Authority have in place for identifying further savings in future years.

We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the savings plans.

Section three

Recommendations raised and follow-up

Recommendations raised and follow-up

This section presents our recommendations to date in 2016/17.

Recommendations summary

Priority	Number raised/ outstanding in 2015/16	Number implemented in 2016/17	2015/16 recommendations to be formally assessed by KPMG as part of 2016/17 final audit	Recommendations raised from 2016/17 audit work	Live recommendations as at date of report
High	2	-	2	1	**3**
Medium	5	1	4	-	**4**
Low	3	1	2	-	**2**
Total recommendations	**10**	**2**	**8**	**1**	**9**

We recognise that the Authority has made progress against a number of these recommendations, as reported to the Audit Committee. However, we are only able to formally assess these recommendations during our year end audit in July 2017. We will report on these in our *External Audit Report (ISA 260) 2016/17* to the Audit Committee upon completion of our audit.

Recommendations raised and follow-up *(cont.)*

We have raised recommendations as part of our interim audit. We have given each recommendation a risk rating and agreed what action management will need to take. The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

High priority Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

Low priority Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

High priority

1. Team resilience and use of interim staff

The Authority has a number of interim staff in key positions within its Estates and Integrated Closedown teams. The departure of the Interim Asset manager and a number of interim valuers has resulted in delays to the valuation process for Council dwellings. There are now no qualified valuers remaining in the Estates team. The knock-on effect has caused us to modify our audit approach to accommodate the Authority's new schedule.

A member of the Integrated Closedown team has also departed in year however the Authority has since recruited an interim replacement for the member of the Integrated Closedown team. Nonetheless, this is a real risk that corporate knowledge is lost upon the departure of interim staff and these potentially impact the valuation and accounts production process.

The use of interim staff has been a focus of the Audit Committee.

Recommendation

We recommend the Authority looks to appoint permanent members of staff as a matter of urgency.

Management Response

For the LSGS Integrated Closedown Team: The Integrated Finance Service only came into existence formally in November 2016 following which work was undertaken to populate the new structure throughout November and December 2016. At that time there was a gap in the permanent resources to fill the Group Accountant Closedown lead for NBC and MKC. Given the timing was only 3-4 months before the year end (i.e. the period when the planning for the year end is at a critical stage alongside the preparation for the interim audit arrangements) it was necessary to continue with the interim member of staff who led the closure of the NBC accounts in 2015/16.

Due to uncontrollable factors the interim member of staff left post in the first week of April, which management agree has created an additional risk to the accounts closure. Again due to the timing of these circumstances and the need to have an experienced closedown lead in place from April 2017 onwards (i.e. at the time the accounts are being produced) a replacement interim Group Accountant appointment was made within 1 week to manage this risk.

It is absolutely agreed that this critical post is appointed to permanently, which is in progress and planned to happen as soon as possible. However in reality a permanent appointment will take 3-4 months to bring in and therefore there is no other option than to continue with the interim arrangements to produce the accounts for 2016/17.

(continued overleaf)

Recommendations raised and follow-up *(cont.)*

	The recruitment will be undertaken as quickly as possible with a view to ensuring some handover time between the interim and permanent post holders. *Responsible officer: Integrated Finance Team Owner – Jon Lee* *Deadline: 30 September 2017* —— *For the Asset Management Team:* The NBC Asset Team is currently subject to a review of its structure as part of a Directorate wide review following the appointment of a new Director. The outcome of this is being agreed and implemented. As part of the transition existing staff employed by the Council, supplemented by interim resources and use of external organisations are being targeted at priority areas of work *Responsible officer: Director of Regeneration, Enterprise and Planning* *Deadline: Full structure implemented by March 2018*

Recommendations raised and follow-up *(cont.)*

We have asked management to provide its assessment of progress against our 2015/16 ISA260 recommendations. These are reproduced below. We continue to work with Management and will report on our final assessment in our ISA260 external audit report in May 2017.

Implementation Ratings

Not implemented	The recommendation has not been implemented in the 2016/17 financial year.
Partially implemented	KPMG recognises progress on this recommendation in the 2016/17 financial year however work remains to be performed by KPMG to formally close the recommendation.
Implemented	The recommendation has been implemented in the 2016/17 financial year.

High priority

1. Controls and processes for issuing loans

There is no systematic formalised system of recording or documenting the due diligence process or results arising from the loan approval process. This includes the assessment of business cases, evidence to support key decisions made, any challenge put forward by the Authority to the loan applicant, and the Authority's internal review and approval process. The Authority had significant difficulty in obtaining the evidence required to substantiate this decision-making process. Our assessment of two loans is still ongoing due to the delayed provision of key documentation first requested in February 2016.

There is evidence that the due diligence process is not sufficiently formal nor are there a consistent set of requirements. This includes the lack of assessments regarding historic trading performance, cash flow, working capital requirements, sensitivity analysis etc. The Authority's Treasury Management Strategy, states that *"The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party."* We note that the use of specialist advisors by the Authority varies across loans in relation to the scope and detail of work requested and undertaken.

The accountability and decision-making process is not sufficiently robust. We note that whilst Cabinet delegates authority to the Chief Executive or other appropriate officers, this has been done prior to finalising the due diligence process.

Recommendation

The Authority should put in place a systematic, robust, and objective process of assessing and documenting the due diligence procedures carried out on loan applicants. This process should be transparent and the

(continued overleaf)

Management's Original Response

Management accept that improvements should be made to the process for approving loans.

It should be noted that NBC have implemented a number of improvements in more recent loans issued, in particular the £46m loan to the University of Northampton which was subject to an intense and closely scrutinised process by the Council and external bodies, including HM Treasury.

NBC will conduct a thorough governance review, in relation to project governance, risk management and due diligence. This review will consider Cabinet decision-making and clearance processes.

The review will draw on external and internal experts and will work closely with KPMG and PWC as appropriate, and the output from the review will include documented and robust processes and checklists for the approval of loans and decision-making processes. NBC using advice from KPMG have already introduced a summary checklist to ensure that all aspects of third party loans are appropriately considered and recorded prior to approval

Completion target dates: 31 March 2017

Responsible officer: Chief Finance Officer, and Monitoring Officer

Recommendations raised and follow-up *(cont.)*

due diligence process undertaken by qualified individuals. Any decision will need to be fully documented, including the reasoning and consideration of risks. The process should include a review by a senior officer and this should be evidenced.

Decision papers to Cabinet need to be robust and objective in order to allow informed and balanced decision-making. Decisions need to be made by Cabinet upon completion of required due diligence process. Officers will need to seek subsequent approval if terms of the loan are substantially revised.

KPMG Update April 2017

The Authority has developed a loans checklist to address our recommendation that there should be a systematic, robust, and objective process of assessing and documenting the due diligence procedures with regards to loans. This checklist has been shared with KPMG.

However, given the fact that due the council taking the decision not to issue any loans this year or for the foreseeable future, the checklist has not been used in practice. Therefore we have not been able to critically assess the effectiveness of this new loans checklist and whether when used in a real situation address and mitigate the risk which we have detailed in our prior year's ISA260 recommendation. In addition, for the same reason were also not able to assess whether appropriate decision-making and approvals took place in line with the recommendation raised.

As a result, we deem this recommendation to be partially implemented until we can confirm effectiveness of this new process in practice.

Partially implemented

Management's Response – April 2017

Noted.

Recommendations raised and follow-up *(cont.)*

High priority

2. Retrospective raising of purchase orders

Testing identified that purchase orders need to be raised prior to the Authority committing itself to purchasing goods/services. All purchases need to be authorised, and this authorisation is only carried out at purchasing order stage for those items that require a purchase order.

We noted that £7.7 million worth of expenditure in year was not appropriately authorised prior to placing an order with a supplier. In these cases purchase orders were raised retrospectively which potentially opens the Authority to potential fraud or impropriety and is contrary to the Authority's policy.

Recommendation

The Authority should ensure that purchase orders should be raised for the purchasing of goods and services through the purchase order process (where appropriate), prior to the Authority committing itself to the purchase.

Reports should be run on a regular basis to identify all non compliance and take appropriate follow up action.

2014/15 response

Agreed. This amount of expenditure (£7.7 million) represents approximately 3% of the value of all invoices raised in 2014/15.

This indicates a good level of financial management with 97% of purchases requiring a purchase order being processed appropriately.

All purchases made were from approved budgets and were subject to appropriate segregation of duties for final authorisation of payment.

The Authority will review this level of efficiency and continue to provide financial management training to further improve procurement compliance.

Completion target dates: 31 March 2017

Responsible officer: Chief Finance Officer

KPMG Update April 2017

We are currently undertaking our data and analytics work and will share our progress and results with you as part of the *ISA 260 2016/17* at year end.

Partially implemented

Management's Response – April 2017

Noted. The Authority has undertaken an extensive number of actions in this area which are being reported part of the ISA 260 action plan.

Recommendations raised and follow-up *(cont.)*

Medium priority

3. Revaluation of council dwellings

The Authority revalues approximately 20% of its council dwellings annually, using the beacon methodology. This is where similar council dwellings are grouped with one dwelling chosen to represent each group (the 'beacon'). The remaining 80% of beacons are uplifted using the average movement of the 20%. The *Stock Valuation for Resource Accounting* guidance suggests that where a rolling valuation is performed, the Authority should undertake a desk top review of the remainder, informed by the results of the revaluation, market research and comparing prices of similar transactions in year.

The Authority was unable to provide evidence of the year-end valuation methodology until after our on-site visit had been completed (22 days working days after request), causing significant delays to the completion of our work.

Handwritten notes were then provided to us, but these did not provide a clear and concise audit trail detailing the methodology used, the assumptions made, nor how calculations had been applied. There was no evidence this working paper had been reviewed. Furthermore, whilst the Authority did take into account similar transactions in the year, it did not challenge the methodology used nor undertake any additional review such as looking at wider trends, indices and other information to inform the year end movement. The Authority did not perform its own assessment of the final valuation including challenge and confirmation of this in order to understand key movements for properties.

For both the initial and year end valuations, the valuer did not provide all the documents required by Code guidance including a separate overarching valuation report covering matters such as the process used to arrive at the estimate of the remaining useful life of individual properties, the valuer's proposed strategy,, arrangements for implementing the rolling programme; and proposals for carrying out additional and ad hoc valuations.

Recommendation

The information requested, and provided by the valuer, should meet all the criteria within the Code and provide a clear and concise audit trail relating to the methodology and assumptions used in the valuation process. All evidence should be maintained and made available prior to the start of the audit.

The Authority should ensure that it fully fulfils its responsibility to review, challenge and understand the information provided by the valuers as required by guidance.

Management's Original Response

Accepted. There was a change in key staff within the Asset Management team prior to the start of the audit. This combined with changes to finance staff meant that the process was not as smooth as in previous years.

Management recognise there is a need for a better documented internal review process within Asset Management, and between Asset Management and Finance. Officers will be working jointly to thoroughly document processes for future years.

Completion target dates: 31 December 2016

Responsible officer: Head of Asset Management, and Strategic Finance Manager

KPMG Update April 2017

Although the Authority has taken steps to action the above, it is yet to receive a final valuation figure and therefore this recommendation is still outstanding and has been reraised as at the date of this report.

We have received assurances that the Authority has documented the full audit trail behind the valuations and the report that has been received from the external valuer has been challenged. We have engaged with KPMG valuers to review the final valuation as part of the year end audit.

Partially implemented

Management's Response – April 2017

The implementation of this recommendation has led to a greater level of review and challenge of the Beacon Group valuation for 2016/17. This has consequently led the Authority to instruct an external specialist in Council Dwellings to

(continued overleaf)

Recommendations raised and follow-up *(cont.)*

undertake further work to provide the assurance required. This work will has been scoped to ensure review the appropriateness of the Beacon Group valued at the 1st April 2016, amendments to that Beacon Group as deemed necessary to produce the 31st March 2017 final valuation report. This work is being undertaken in line with the RICS Valuation Standards and the CLG Guidance on Stock Valuation for Resource Accounting.

Medium priority

4. Reconciliations

During the course of our audit we reviewed a number of reconciliations performed by the Authority between key systems. These are important controls which provide assurance that due process is being followed and that values reflected in the financial statements are calculated on an appropriate basis. We noted a number of issues including:

- Our testing of the March 2016 payroll reconciliation showed a total of 99 unreconciled items with a net value of £46,000 (gross £95,000). We also noted historical brought-forward balances which have yet to be identified by payroll.
- The Authority reconciles weekly Valuation Office (VO) reports to Academy Capita. The Authority does not reconcile the number of hereditaments (properties which are subject to business rates) to the NNDR system. There remains a small unreconciled difference in property numbers each week.
- The Authority reconciles the annual housing benefits expenditure to Agresso at the end of the year. We identified that the Authority had used the 2014/15 figure instead of 2015/16 figure for the reconciliation, resulting in an unreconciled difference of £15,300, instead of the original £997. This was not identified despite having been reviewed and signed off as "quality assured" by Officers.

Recommendation

The Authority needs to ensure that quality checks are undertaken on all key controls. This should be embedded within the reconciliation process. The Authority should ensure all the issues above are dealt with and that full reconciliations are carried out across all appropriate systems and balances. All unreconciled balances should be identified and cleared, or written-off in a timely manner

Management's Original Response

Accepted. Payroll reconciliation – Management accept there is a need to strengthen the reconciliation process. Reconciliation items must be identified and cleared within a timely period.

NDR property reconciliations - The Authority does reconcile the properties between the NDR and VO reports, and there are currently two cases where properties don't reconcile but officers are aware of the reasons why the systems don't reconcile and will be correcting them. The reconciliation amendment will not impact on the customers' liability or debit raised
Housing Benefit Agresso reconciliation - Management recognise that the reconciliation process needs to be improved, and officers will be revising the process to exclude prior balances from the reconciliation data to ensure it is not included in error.

Completion target dates:

Payroll: 31 October 2016

NDR: 31 October 2016

Housing Benefit: 31 December 2016

Responsible officer: Payroll Manager

Revenues Manager

Strategic Finance Manager

(continued overleaf)

Recommendations raised and follow-up *(cont.)*

KPMG Update April 2017

As part of our interim audit we looked at the December 2016 payroll reconciliation. 27 reconciling items were present on the December 2016 reconciliation that were present on the July 2016 reconciliation. We recommend these are cleared as quickly as possible.

The NDR and Housing benefit reconciliations will be looked at as part of our year end audit.

Partially implemented

Management's Response – April 2017

The authority's draft accounts will include the write-off of a number of historical balances which relate to some of these reconciling items.

Recommendations raised and follow-up *(cont.)*

Medium priority

5. Cut-off and accruals accounting

We performed cut-off procedures over the Authority's non-pay expenditure controls. The Authority needs to recognise expenditure incurred within the correct financial year. Our cut-off procedures are designed to test the effectiveness of the Authority's process for identifying and allocating expenditure to the correct financial year.

We tested 10 transactions around the year-end closedown date and identified that one invoice which should have been accrued had not been. The value of this invoice was for £2,240, which is above the Authority's *de minimis* threshold and therefore should have been accounted for within 2015/16.

Whilst further investigation deemed the issue to be immaterial to the audit, and therefore no adjustments are proposed, this is a key control operated by the Authority and should be operated consistently during the year.

Recommendation

The Authority should ensure it strengthens its year end cut-off procedures and that controls are sufficiently-robust to ensure correct procedure is followed. The Authority may wish to consider the impact on raising its de minimis level to reduce the manual input required in this process. A review of cut-off is particularly important given the move to a shorter timetable for the accounts process from 2017/18, and the reduced time to produce the financial statements.

Management's Original Response

Accepted. Management accept this advice and they intend to review the de minimis level for accruals from £1,000 to £5,000 in order to make the process more efficient in the future to enable the reduced statutory deadline for the closure of accounts to be achieved. This will allow more time for increased controls over the manual accruals process which arguably present a greater risk.

Completion target dates:

31 December 2016

Responsible officer: Head of Asset Management, and Strategic Finance Manager

KPMG Update April 2017

This will be reviewed as part of our year end audit.

Partially implemented

Management's Response – April 2017

The de minimis level for accruals has been increased from £1,000 to £5,000 following delegated authority from the Audit Committee at the 6th March 2017 meeting to the S151 Officer. This is the level being worked to as the accounts for 2016/17 are produced and this has been communicated to finance staff and service managers in the year end guidance.

Recommendations raised and follow-up (cont.)

Medium priority

6. General IT controls – leavers

We tested the Authority's general IT control environment this year. We carried out specific testing of key applications which are relied upon by the audit, including Agresso. For two applications, we found that staff who have left the organisation are still active on these applications:

- IBS Housing: 14 former staff had active accounts; and
- ICON: 12 former staff were on user list, of which five were disabled and seven still active users.

Recommendation

Timely leaver forms need to be completed and cascaded to the relevant departments, including to IT.

User access to applications needs to be reviewed on a periodic basis. In addition, the departing employee's access rights should be revoked as part of the standard leaving procedures. This process should be co-ordinated between HR and IT.

Management's Original Response

Accepted.

Management notes this recommendation and has taken the following action:

IBS Housing System. The recommendation for timely leaver forms needing to be completed and cascaded to the relevant departments has now been implemented.

ICON System. The staff responsible for maintaining user access to the ICON system have incorporated a review and disablement of users who have left into their routine monthly processes linking with the HR and Payroll teams.

Completion target dates:

Immediate

Responsible officer:

IBS Housing System: LGSS Business Systems Manager

ICON System: LGSS Exchequer team leader

KPMG Update April 2017

Our work over IT has been delayed as a result of a lack communication being received from Council Officers.

The work is currently underway and we will provide a report on the recommendation in our *ISA 2016/17* report.

Partially implemented

Management's Response – April 2017

Noted.

Recommendations raised and follow-up *(cont.)*

Medium priority

7. Preparation and review of audit working papers

Our *Accounts Audit Protocol*, issued in January 2016 and discussed with the Strategic Finance Manager, sets out our working paper requirements for the audit. During our final accounts visit, a number of issues arose in relation to the quality of the working papers, including:

— Many working papers were not checked against the requirements listed in the *Accounts Audit Protocol*, many had significant gaps in the information provided. In particular working papers relating to fixed assets and payroll caused delays to our audit process. Sign-off and review of these working papers were also performed by staff who were not aware of the requirements in the *Accounts Audit Protocol*.

— The working papers for fixed assets do not show a clear audit trail, from the financial statements to an individual asset on the fixed asset register. The Authority faced difficulty in providing us with support for the year-end valuation increase (see recommendation four below).

These issues have arisen despite the review and 'quality assurance' sign-offs on the front of each working paper.

Recommendation

The Authority should ensure that all key closedown staff receive and review the *Accounts Audit Protocol* prior to producing working papers for the audit. The overarching principle is working papers should provide a clear and concise audit trail from the financial statements through to sufficient and appropriate evidence within supporting working papers. Working papers need to:

— Be clear, with explanations if needed. The working papers need to be written from the view point of someone external to the organisation; and

— Be supported by strong evidence, for example, third party documentation.

Management's Original Response

Accepted. There were a number of changes to key staff involved in the delivery of the year end accounts, and in the onsite management of the external audit that unfortunately resulted in this situation.

Management are fully supportive of a joint review between the Authority and the external auditors to ensure a return to a high quality set of working papers ensuring a smoother audit in coming years. This will be particularly important moving forwards as further improvements are required to the process in order to meet increasingly reduced statutory deadlines for the closure of accounts.

Completion target dates:

30 November 2016

Responsible officer: Strategic Finance Manager

KPMG Update April 2017

The use of the KPMG SharePoint in the 2016/17 audit has proved to be beneficial and has helped the sharing of data, including confidential payroll information. This has now been implemented.

Implemented

Management's Update April 2017

Work has been undertaken to fully cross reference the PBC and the closedown timetable to ensure the delivery of the accounts and the PBC requirements as a single product. This was circulated to all relevant staff on the 16th March 2017.

Recommendations raised and follow-up (cont.)

Low priority

8. Data provided to the pensions authority

Our testing of April to December 2015 pensions return to the pensions authority identified minor variances between the data provided and source data held by the Authority. The Authority had since alerted the pensions authority of these discrepancies; however due to the small values, there was no impact on the actuarial calculations. Nonetheless, our findings identified that checks over the pensions return were not made prior to submission.

Recommendation

The Authority should review all information provided to the pensions authority on a monthly basis. This should be evidenced via sign-off by a senior individual.

Management's Original Response

Accepted. Management accept this recommendation and work is being done between the Pensions and Financial Systems teams to ensure more a complete reconciliation is done which is then signed off by an appropriate manager.

Completion target dates:

30 November 2016

Responsible officer: LGSS Financial Systems Manager

KPMG Update April 2017

As part of our interim audit we tested the completeness and accuracy of the data provided to the pensions authority. No issues were found. This has now been implemented.

Implemented

Management's Update April 2017

Noted.

Recommendations raised and follow-up (cont.)

Low priority

9. Payroll data quality

As part of our audit approach, we undertook data analytics over the Authority's payroll transactions for the year. We did not find any material issues; nonetheless, we noted some minor data quality issues, such as incorrect addresses and duplicate National Insurance numbers. We have provided the full results to the Authority separate from this report.

We noted salary payments made to employees after their effective end date. All of these have been investigated by the Authority and confirmed as appropriate.

Recommendation

The Authority should investigate instances of data quality issues. In addition, the Authority should investigate all incidences of salary payments to staff after the end dates.

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Management's Original Response

Management have reviewed the findings and whilst there are no significant issues, processes have already been updated during 2015/16 to address issues around national insurance numbers. A further review of data held around historic / incomplete postcodes will be undertaken

Completion target dates: 31 December 2016

Responsible officer: Payroll Manager

KPMG Update April 2017

The original results of our work over payroll data and analytics highlighted a number of data quality issues. When communicated with the Integrated Closedown team, it highlighted that the data originally used was incorrect. A new data set has been provided and the tool will be re run. This has resulted in a delay to the work produced. We will provide an update to this recommendation as part of our *ISA 260 2016/17* when the tool has been re run using the new data.

Partially implemented

Management's Update April 2017

Due to the data requirements changing for this year's audit with the request for a single data report in this area, the Systems team had to pull together the data from different sources and undertake lookup processes between the different sources. There was an issue with this lookup with new cost centres not being picked up which led to the exceptions highlighted by KPMG. This has been corrected in a revised set of data and reports, which is expected to remove the vast majority of the exceptions initially identified. We await the outcome of the revised analysis.

Recommendations raised and follow-up *(cont.)*

Low priority

10. NDR provision review

The Authority collects Non-Domestic Rates (NDR) from businesses in the Borough. NDR owed to the Authority is based on rateable values, as set by the Valuation Office Agency (VOA). Ratepayers are able to appeal these values if they do not agree with the valuation. If successful, the Authority is liable to repay its share of the difference.

This was first introduced in 2013-14 due to a move to localise business rates. The Authority has set an NDR provision level of 5% based on an estimate of successful appeals. This estimate is based on information from the VOA (across a range of percentages) and the DCLG's guidance on the national average success rate.

During the course of the audit we asked the Authority to provide evidence regarding its review and analysis of local historical data collected since April 2013 in order to inform its view of the appropriateness of its provision in this area, however none was provided at that time. In raising this issue with Management, we have now been provided with information pertaining to the Authority's approach. The Authority having analysed the local data has deemed that the current approach is prudent and therefore has not adopted the calculated figures. This has not resulted in a material impact on the financial statements.

Recommendation

The Authority should continue to use its own historical data to inform and refine its estimate of its share of liability arising from successful appeals. Notwithstanding whether the Authority decides it should change its provision based on this information, sufficient and appropriate audit evidence should be maintained and provided to evidence the decision process undertaken, as well as management review and sign-off of the final position. The Authority should provide appropriate and sufficient narrative explanations with regards to why the Authority believes that the approach taken is the most appropriate or prudent, especially when there are valuation differences between methodologies.

Management's Original Response

Accepted. The Council recognises the complexity of the business rates retention system and the importance of understanding its appeals position. The Council will continue to review the impact of successful appeals on a monthly basis to assess its impact on the financial position. The outcome of this analysis, along with other sources of intelligence, will inform the level of appeals provision for 2016/17.

Completion target dates: 31 March 2017

Responsible officer: Chief Finance Officer

KPMG Update April 2017

The work over NDR provisions is a year end procedure and has not yet been reviewed by the audit team. KPMG cannot yet confirm whether this has been implemented.

Partially implemented

Management's Update April 2017

Noted.

Section four

Technical developments

PSAA's Value For Money Tool

Level of impact: 🟢 (Low)	**KPMG perspective**
The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 3 October 2016. The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years. The VFM profiles have also been updated with the latest available data from the following sources: — General fund revenue account budget (RA) (2016/17) — Child and working tax credit statistics (2014/15) — Children in low-income families local measure (2015) — Chlamydia testing activity dataset (CTAD) (2015) — Climate change statistics: CO2 emissions (2014) — Collection rates for council tax and non-domestic rates in England (2015/16) — Council tax demands and precepts statistics (2016/17) — Fuel poverty sub-regional statistics (2014) — Homelessness statistical release (P1E) (2015/16) — Housing benefit speed of processing (2015/16) — Mid-year population estimates (2015) — NHS health check data (2015/16) — Planning applications (2015/16) — Schools, pupils and their characteristics (2015/16) — Young people from low income backgrounds progressing to higher education (2013/14) The Value For Money Profiles can be accessed via the PSAA website at http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing	*The Committee may wish to seek further understanding for areas where their Authority appears to be an outlier.*

NAO report: Children in need of help or protection

Level of impact: ● (For Information)

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

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

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

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

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

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

Consultation on 2017/18 work programme and scales of fees

Level of impact: ● (For Information)

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

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

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

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

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

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

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

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

Overview of Local Government

Level of impact: ● (For Information)

The NAO has recently published an Overview of Local Government

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

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

kpmg.com/app