

**Appendices:**

None

**NORTHAMPTON**  
BOROUGH COUNCIL**AUDIT COMMITTEE REPORT**

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| <b>Report Title</b> | <b>Statement of Accounts 2017/18 Progress Report</b> |
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**AGENDA STATUS: PUBLIC**

|                                      |                                |
|--------------------------------------|--------------------------------|
| <b>Audit Committee Meeting Date:</b> | 13 <sup>th</sup> November 2017 |
| <b>Policy Document:</b>              | No                             |
| <b>Directorate:</b>                  | LGSS Finance                   |
| <b>Accountable Cabinet Member:</b>   | Cllr Brandon Eldred            |

**1. Purpose**

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- 1.1 To inform the Audit Committee on the work undertaken in conjunction with the external auditors KPMG since the 27<sup>th</sup> September 2017 Audit Committee towards enabling KPMG to issue their audit opinion on the 2016/17 Statement of Accounts.

**2. Recommendations**

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- 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**

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**3.1 Report Background**

- 3.1.1 Audit Committee on 27<sup>th</sup> September approved the Chair of Audit Committee to sign the 2016/17 Statement of Accounts including the amendments that were presented to the meeting.
- 3.1.2 The external auditors KPMG tabled their draft annual ISA260 report at the 27<sup>th</sup> September Audit Committee and presented it to committee members in detail. As part of their presentation they advised that they were still assessing the amendments that the Audit Committee had approved, and 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.

3.1.3 Following the last Audit Committee meeting, KPMG wrote formally to the Council's Chief Finance Officer on 29<sup>th</sup> September to advise that following internal review they were not able to issue an audit opinion before the 30<sup>th</sup> September statutory deadline *'due to the number of areas of concern and errors found during KPMG's valuer's review of a sample of assets, 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'*.

3.1.4 A copy of the KPMG late audit opinion letter referred to above was subsequently sent to all audit committee members for reference. This identified three specific areas of concern

- Valuations of Social Housing Assets
- Valuations of Other Land and Buildings, and Investment Properties
- Methodology of componentisation of assets

## **3.2 Work undertaken since Audit Committee on 27<sup>th</sup> September 2017**

3.2.1 KPMG following the audit committee and their further review which resulted in their late audit opinion letter have confirmed that two issues surrounding: 100% valuation of all housing dwelling beacon properties; and asset componentisation can be included as part of producing the 2017/18 Statement of Accounts. This is provided that the management letter of representation for the 2016/17 accounts which will be signed by the Chief Finance Officer and Chair of Audit Committee include reference and commitments as to the actions that will be taken by the Council in respect of these two issues. The Council has already commenced work on these areas in preparation for the 2017/18 Accounts and is regularly updating KPMG on progress.

3.2.2 The sole area that KPMG have formally stated to the Council that they require increased audit assurance for 2016/17 is ensuring that the remaining assets (other than the housing dwelling assets) have appropriate valuations to support the values held in the balance sheet. They have informed officers that they will be selecting an expanded sample of those asset types.

3.2.3 Since the last Audit Committee officers have set up an internal Task Force which meets on a weekly basis to ensure that all necessary steps are being taken to ensure that KPMG are able to issue their audit opinion on the 2016/17 Statement of Accounts as soon as practically possible. This Task Force is chaired by the Chief Finance Officer and includes staff from LGSS finance, the Assets Service, Risk and Governance, and Legal Services. Regular feedback is given via the Chief Finance Officer to the Management Board.

- 3.2.4 Officers have undertaken initial preparatory work on potential asset valuation samples that KPMG may select to speed up the response and evidence already sourced when the sample is selected
- 3.2.5 LGSS finance staff met with KPMG management on 6<sup>th</sup> November to discuss progress against the questions, timelines around sample selection, and the draft ISA260 report. It was agreed that KPMG would provide a high level timetable around sample selection and audit thereof to be included as part of this report. This was provided the following day and shown below:

| <b>Workload</b>  | <b>Timescales</b>   | <b>Delivered by</b>                                  |
|--|---------------------|--|
| Review of Council's response to queries on property, plant, and equipment (PPE) queries which were returned to KPMG w/c 30/10/17 and 6/11/17 | 13.11.17 – 24.11.17 | KPMG Senior Audit Management                         |
| Selection of valuation sample sent to the Council  | w/c 27.11.17        | KPMG   |
| Review sample and provide evidence to support the valuations, and answer any KPMG follow up questions  | December 2017       | Council Assets team (with support from LGSS finance) |
| Test valuation evidence supplied by the Council and discuss any queries with the Council   | December 2017       | KPMG Internal Valuer                                 |
| Final Review of outstanding work   | December 2017       | KPMG Senior Partner etc                              |
| Finalise audit work on PPE and prepare for completion. Close off any review points   | January 2018        | KPMG audit team                                      |
| Issue signed audit opinion   | 31.1.18             | KPMG Director  |

- 3.2.6 KPMG have advised that whilst this is the timetable they are working to, it is dependent on their valuer's availability/requirements and responses from the authority being received correctly in the requested format in a timely manner. The Council will prioritise resources to meet the short timescale around obtaining and providing sample valuation evidence however this is a significant risk to the timetable.
- 3.2.7 The Council have requested an audit requirements checklist for the asset sample evidence needed. KPMG have committed to providing it in advance of issuing the valuation sample to the Council. Officers will also be looking at options with KPMG to bring forward the timetable if at all possible and reprioritising resources where necessary, this is key to being able to complete the exercise and focus on preparation for the earlier closure of the 2017/18 accounts.

### **3.3 Planned Accounts completion work for 2016/17 and 2017/18 preparation**

- 3.3.1 The 2016/17 Statement of Accounts were signed on 27<sup>th</sup> September by the Chief Finance Officer and Chair of Audit Committee following their approval at

Audit Committee on the same day. Delegated authority was also given to the Chair to sign a revised 2016/17 Statement of Accounts if necessary with any changes being subsequently reported to the next available Audit Committee. If following completion of the external audit work there are amendments required to the current signed Statement of Accounts, it is likely according to the KPMG timetable they would not be available for signing until late January 2018 alongside a management letter of representation.

- 3.3.2 In preparation for the 2017/18 accounts and in line with the required narrative within the management letter of representation that KPMG will require shortly, officers have been reviewing the housing valuations and componentisation processes to make improvements to ensure that the earlier statutory closure of accounts in 2017/18 can be achieved.
- 3.3.3 The process reviews have involved Assets and LGSS Finance staff, and will ensure that best practice from other authorities within the LGSS partnership and authorities that already have an early accounts closure are incorporated into the final revisions,. The Council will jointly share with KPMG the final proposed processes to ensure it meets their audit requirements. Where these require any changes to accounting policies they will be brought to Audit Committee for approval prior to preparing the 2017/18 accounts.
- 3.3.4 The internal auditors for both the Council and LGSS are being engaged in process and working paper reviews to provide assurance on their robustness
- 3.3.5 The internal task force is reviewing and approving the high level processes and timetable for valuation work in 2017/18.

#### **3.4 2016/17 Draft ISA260 External Audit Report**

- 3.4.1 Officers have jointly reviewed the ISA260 draft report with KPMG to ensure factual accuracy of all points. The Council accepts the points made and recommendations and is working in conjunction with KPMG to make improvements to the areas highlighted. Formal management responses will be included within the final ISA260 report when it is released by KPMG at the finalisation of the 2016/17 audit work.

#### **3.5 Choices (Options)**

- 3.5.1 The report is just for noting, however Audit Committee have the opportunity to ask questions directly to officers on anything contained in the report, and issues around the completion of statutory accounts for 2016/17.
- 3.5.2 The Council's officers have over a number of weeks being engaged in weekly meetings with detailed work on the issues raised by KPMG and to further deal with a number of detailed clarifications as also required by KPMG. This has caused a diversion of staff time which hopefully will come to an end in the new year, in particular as the account closure deadlines are a month earlier for the 2017/18 accounts.

### **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 to ensure that the KPMG are provided with adequate assurance to enable them to give their opinion on the 2016/17 statement of accounts as soon as practicable. This will reduce the risk of sufficient resources not being available to progress the closure of the 2017/18 accounts within the reduced statutory time period.

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

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