

Appendices:

None

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

Report Title	Statement of Accounts 2016/17 Progress Report
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	15 th January 2018
Policy Document:	No
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

1.1 To inform the Audit Committee on the work undertaken in conjunction with the external auditors KPMG since the 13th November 2017 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 Audit Committee on 27th 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 27th 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. Following that Audit Committee meeting, KPMG wrote formally to the Council's Chief Finance Officer on 29th September to advise that following internal review they were not able to issue an audit opinion before the 30th September statutory deadline and 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 27th September 2017

3.2.1 The last progress report informed the Committee of the internal Task Force that had been set up chaired by the Chief Finance Officer which has continued to meet weekly for the last few months to focus staff resources on providing the external auditors with evidence and assurance to enable them to provide an opinion on the Statement of Accounts.

3.3 Work undertaken since Audit Committee on 13th November 2017

3.3.1 The Council as part of liaising with KPMG have done further extensive assurance work to evidence that the asset records held in the Council's asset management system reconcile with the balance sheet values held in the statement of accounts, including movements during the year. This has involved creating new working papers suggested by KPMG to track movements against each asset within a number of asset types.

3.3.2 Prior to selecting a sample of asset valuations to review, KPMG had 15 initial queries to provide assurance that the sample population was correct. The Council responded to these by 6th November and also to the 5 follow up questions issued by 24th November. The Council requested an audit requirements checklist for the asset sample evidence needed. KPMG committed to providing it in advance of issuing the valuation sample to the Council and it was sent to the Council on 23rd November.

3.3.3 This enabled KPMG to issue their sample on the 30th November which included 107 individual assets, 38 other land and buildings and 69 investment properties. The Council on reviewing the evidence on some of the internal other land and buildings valuations decided there was not sufficient file evidence and therefore commissioned 14 valuations to be done again by an external valuation company to ensure robust evidence was available. All supporting evidence for asset valuations in the selected sample was returned to KPMG during the first two weeks of December.

3.3.4 There were over 40 clarification queries raised by KPMG relating to the sample of asset valuations selected by KPMG. These were prioritised by Council officers, and external valuers where appropriate, to ensure that responses were returned promptly, with all being returned by 22nd December within the target timescales that were presented to the last Audit Committee.

- 3.3.5 The Council's Chief Executive and Chief Finance Officer both had meetings with KPMG prior to Christmas on 20th December where 2016/17 accounts progress was discussed. In both meetings they were reassured that the target date for issuing an external audit opinion remained the 31st January 2018.
- 3.3.6 The last report to Audit Committee included a high level timetable and this has been updated as below :

Workload	Estimated Timescale	Date achieved	Delivered by
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	16.11.17	KPMG Senior Audit Management issued a review response which had 5 follow-up queries
Council's response to KPMG follow-up queries received 16.11.17 (see above)	n/a	24.11.17	Council Assets team and LGSS finance
Selection of valuation sample sent to the Council	w/c 27.11.17	30.11.17	KPMG - chose a review sample of 38 other land and buildings valuations and 69 investment properties
Review sample and provide evidence to support the valuations, and answer any KPMG follow up questions – 10 follow up questions relating to investment valuations were issued by KPMG on 13.12.17	December 2017	22.12.17	Council Assets team (with support from LGSS finance)
Test valuation evidence supplied by the Council and discuss any queries with the Council	December 2017	in progress – note it was envisaged this activity could go into January	KPMG Internal Valuer
Final Review of outstanding work	December 2017	in progress	KPMG Senior Partner etc
Finalise audit work on PPE and prepare for completion. Close off any review points	January 2018	In progress	KPMG audit team
Issue signed audit opinion	31.1.18		KPMG Director

3.4 Planned Accounts completion work for 2016/17 and 2017/18 preparation

- 3.4.1 The 2016/17 Statement of Accounts were signed on 27th 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 31st January 2018 alongside a management letter of representation. To date the audit work undertaken and revaluations obtained mean that there will be a number of material changes to other land and buildings and investment property asset values from the accounts presented to Audit Committee in September 2017. These are being finalised and will be reported to the next Audit Committee.
- 3.4.2 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.
- 3.4.3 The internal auditors for both the Council and LGSS are being engaged in process and working paper reviews to provide assurance on their robustness for 2017/18, in particular those around asset valuations.
- 3.4.4 A planning meeting was held with KPMG on 11th January to plan for the interim and final audit work for the 2017/18 accounts, and KPMG will be issuing their audit requirements by the end of January. In respect of the 2016/17 accounts KPMG are due to receive the final report from their valuers by 12th January which will enable them to reach a conclusion on the asset valuation work and evidence. This is prior to liaising the following week with the Council on any findings with the aim of completing their audit assurance work by the end of January to enable them to issue an audit opinion.

3.5 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.

4. Implications (including financial implications)

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

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

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