



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:	18 th June 2018
Policy Document:	No
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

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

2. Recommendations

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

3. Issues and Choices

3.1 Report Background

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

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

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

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

3.2 Work undertaken between Audit Committee on 27th September 2017 and Audit Committee on 15th January 2018

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

3.3 Work undertaken since Audit Committee on 15th January 2018

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

3.3.2 Mapping of the trial balance to the Statement of Accounts

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

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

3.3.4 The valuation of Council Dwellings at 1st April 2016

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

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

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

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

3.4 Completing 2016/17 Statement of Accounts

- 3.4.1 In addition to these key issues, and the need for KPMG to complete their closing review, there are also a small number of minor queries for which responses were provided in January. The progress against completion of all outstanding tasks is being monitored by the Chief Executive, Interim Chief Finance Officer and External Audit Director through a queries tracker. The Portfolio Officer for Finance is also provided a fortnightly review of progress by LGSS Finance.
- 3.4.2 There is a commitment from both the Council and KPMG to complete all outstanding work and sign-off the 2016/17 Statement of Accounts by the next Audit Committee on 30th July 2018. This will require the Financial Statements, the Annual Governance Statement and Letter of Representation to be re-presented and signed.

3.5 2016/17 Draft ISA260 External Audit Report

- 3.5.1 In September 2017, the Finance team and KPMG jointly reviewed the ISA260 draft report to ensure its factual accuracy. The Council accepted the recommendations made and is working in conjunction with KPMG to make improvements to the areas highlighted. KPMG will provide an addendum to the ISA260 report once the 2016/17 audit is finalised and formal management responses will again be provided.
- 3.5.2 Colleagues across the Council have started to implement an ISA260 action plan that reviews progress against the recommendations. The plan will be reviewed every quarter and, although work continues on the 2016/17 accounts, progress has been made in a number of areas.
- 3.5.3 A 'lessons-learned' document is also being maintained at a more detailed level, in order to ensure that issues from the 2016/17 accounts are not replicated in the future (see **appendix 1**).

3.6 Preparation of 2017/18 Statement of Accounts

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

3.7 Choices (Options)

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

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 None to report.

4.2 Resources and Risk

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

4.3 Legal

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

4.4 Equality

4.4.1 Not applicable.

4.5 Consultees (Internal and External)

4.5.1 External Auditors, KPMG

4.6 Other Implications

4.6.1 None.

5. Background Papers

5.1 Audit Committee 27th September 2017

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

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

5.2 Audit Committee 13th November 2017

- Item 6: Statement of Accounts Update

5.3 Audit Committee 15th January 2018

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

Amy Eyles
Strategic Finance Business Partner - 01604 367514

Stuart McGregor
Chief Finance Officer - 01604 366521