Democratic Services
One Angel Square
Angel Street,
Northampton, NN1 1ED

Audit Committee

Minutes of the meeting held on 30 July 2019 at 10am

Venue: Covey Room, One Angel Square, Northampton (Meeting held in public)

PRESENT (for all or part of the meeting):

Bill Jessup (Independent Chairman)

Councillor Irving-Swift
Councillor Stephen Legg
Councillor Steve Osborne
Councillor Bill Parker
Councillor Mick Scrimshaw (Substitute)

Also in attendance (for all or part of the meeting)

Councillor Malcolm Longley	Cabinet Member with responsibility for Finance
Councillor Sandra Naden-Horley	Cabinet Member with responsibility for Corporate Services
Councillor Chris Stanbra	Deputy Chair of the Overview and Scrutiny Committee
Mark Ashton	LGSS Interim Managing Director
Andrew Cardoza	Director, KPMG
Simon Deacon	Deputy Chief of Staff, Commissioners for Northamptonshire
Ian Duncan	Executive Director of Finance
Jacinta Fru	Head of Audit East, LGSS
Barbel Gale	Democratic Services Assistant Manager (minutes)
Daniel Hayward	Senior Manager KPMG
Jon Lee	Head of Integrated Finance Services, LGSS
Brian Roberts	Finance Commissioner
Martin Savage	Principal Accountant – Closedown, LGSS
Duncan Wilkinson	Chief Internal Auditor, LGSS
Susan Zeiss	Monitoring Officer

There were 4 members of the press and public in attendance.

23/19 Apologies for non-attendance

Apologies were received from Councillor John McGhee, Stephen Clarke, Partner, Ernst & Young (EY) and Stephen Mangan, Audit and Risk Manager, LGSS.

24/19 Notification of Requests from Members of the Public to Address the Meeting

There were none.

25/19 Declaration of Members' Interests

Item	Councillor	Type	Nature

7	Parker	Non statutory discloseable interest	He was a former Director of NEA Properties Ltd.

26/19 Chairman's Announcements

There were none.

27/19 Minutes of the committee meeting held in public on 18 June 2019

RESOLVED that: the Audit Committee agreed and signed as a true record the minutes of the meeting held on 18th June 2019.

28/19 External Audit ISA 260 Report 2017/18

At this point Councillor Parker made a statement, the main points are listed below:

- He clarified that he was commenting on the 2016/17 financial figures as set in February 2019;
- Point one in section 7.3 of the Executive Director of Finance's report stated 'the reversal of revenue expenditure incorrectly deemed to be transformation expenditure that was funded from flexible use of capital receipts'
- He indicated that from 2010 onwards the Council had regular meetings with Cabinet Ministers, particularly those representing local government to discuss the underfunding of NCC;
- In 2015 he indicated that Greg Clarke, minister at the time was presented with the 'Mind the Gap' report detailing NCC's financial pressures;
- A subsequent meeting was held with Greg Clarke involving six other county council leaders which resulted in the Minister allowing councils to use capital receipts to help fund transformation proposals;
- A letter was received from the Department for Communities and Local Government (DCLG) in December 2015 stating the Secretary of State (SoS) for Local Authorities allowed the Chief Financial officers to treat capital expenditure as expenditure which was incurred by the authorities on the revenue cost of projects future costs and/or transformation service delivery and was properly incurred by the authorities for the years ending 31 March 2017, 31 March 2018 and 31 March 2019;
- He indicated the letter had been signed by Gareth Caller, Max Caller's son;
- At that time the Council was moving towards the Next Generation Council model designed to significantly reduce operating costs and the first of these delivery vehicles, First for Wellbeing, was due to be launched on 1st April 2016;
- As a consequence of the Government's decision the Council set a four year balanced budget in February 2016, putting £12m of capital receipts into the revenue budget for transformation costs in 2016/17, £9m in 2017/18 and £2m in 2018/19, this also lead to changing the Golden Rules of the Capital Strategy;
- In order to take up the flexible use of capital receipts, an annual efficiency strategy was prepared and submitted to DCLG in September 2016 due to delays in receiving clear instructions from DCLG with no adverse comments being received at that stage;
- He was no longer the Cabinet Member for Finance in May 2016 so he could not comment on how capital receipts were actually used though the figure for

capitalised transformation expenditure in 2016/17 was shown as £12,784m which was in line with the £12m set in the budget;
- In conflicts in part with the KPMG Annual Audit letter 2016/17 which stated 'the use of capital receipts was in line with the new DCLG guidance' though a figure of £21.6m was quoted which did not equate to the Executive Director of Finance's report; and
- He believed it was therefore wrong to say that the use of capital receipts for transformational purposes was misused from the outset as the budgets set in 2016 were entirely in line with government policy however he was not in a position to comment on their subsequent use.

At the Chairman's invitation the Director, KPMG introduced the report (copies of which had been previously circulated) explaining that it had been a difficult year for the Council. He thanked the Head of Integrated Finance Services, LGSS and his team for their assistance during a difficult period. The report was presented to the Committee in draft.

Regarding the valuation of PPE and Investment Properties, work had been undertaken with valuers and there was potential for the valuation of One Angel Square to change in the accounts.

Regarding the Capital Flexibilities and Capital Programme, it was noted that lots of transformational spend had been processed and the authority had confirmed it no meet the definition of transformational spend and as a result it had been removed from the accounts and would be funded via general funding leading to a reported negative general fund position.

Regarding Management Override of Controls, additional work had been carried out. Following discussions with the authority Section 106 and Section 38 monies were removed from the accounts and would contribute to the authorities negative fund position.

In terms of the Best Value Report and Going Concern, he indicated they were satisfied that there was sufficient sustainability in the accounts therefore this had been removed from their opinion.

The Senior Manager KPMG, explained they expected to issue an adverse 2017/18 value for money (VFM) opinion. Regarding the capital strategy they identified a number of projects where there was a lack of robust governance over the lifetime of the project.

Regarding Transformational Plans and Capital Flexibilities they noted there was little evidence and supporting documentation provided to support the overall use of capital flexibilities for transformational spending.

Regarding Risk Management during 2017/18 it was noted they had received a number of updates from the authority and recognised that their view did not reflect the current position of the authority.

Regarding Off-Payroll Working through an Intermediary (IR35) work was undertaken in relation to the re-engagement of a previous employee of the authority via a contract with their own company, a few days after they had originally left the organisation.

Regarding the Chief Executive Payment they considered the authority's process for agreeing a settlement agreement package with the previous permanent Chief Executive. They were able to confirm that payments were made in line with the settlement agreement with the exception of a validated holiday entitlement.

It was acknowledge that the situation regarding the Financial Peer Review and Action Plans had now moved on.

The Director, KPMG explained the report summarised the delays encountered during the course of their audit. They were sympathetic to the amount of work required by the Head of Integrated Finance Services' team however the audit was delayed. Additional work was required regarding valuations of One Angel Square. The authority commissioned a new valuation of One Angel Square as of 31 march 2018 for year ending purposes. This was received late and their valuation expert provided challenge which resulted in further audit queries. The Executive Director of Finance explained the authority was discussing the valuation of One Angel Square with its valuers to ascertain if the valuation was relevant or if it was likely to change, therefore the final valuation figure for the accounts was still outstanding.

The Director, KPMG said the Whole of Government Accounts (WGA) was still outstanding. In response the Executive Director of Finance clarified the authority was no longer required to produce the WGA for 2017/18.

In considering the Going Concern it was noted that the authority's ability to continue as a going concern was dependent on the authority improving its cash liquidity, improving its financial sustainability in the short to medium term and the impact of the proposed abolition of the Council and the creation of two new unitary councils from April 2021. Following extensive consultation they confirmed that they did not believe in the current circumstances the authority constituted a material uncertainty in relation to its ability to continue as a going concern.

The Director, KPMG went on to say the theme of the recommendations was around getting the basics right and following through on any action to be taken. In relation to the group audit they were pleased to report there were no issues to note in relation to the consolidation process. The audit of the Pension Fund was completed alongside the main audit with no specific matters to highlight. There were a number of of year end controls that they tested during their year-end audit and had found issues relating to payroll starters and leavers, IT leaver access revocation, procurement controls, journals, payroll reconciliations and exit packages.

There was work to be done in terms procurement and contract management to ensure that information is provided in a timely manner.

A debriefing session would be held with the closedown team at no additional cost to the authority, to assess what had worked well and what could be improved regarding the closedown processes.

The Annual Governance Statement had been updated to reflect the current position of the authority but also reflected where the authority was in 2017/18. Their audit opinion would be sent to the PSAA for their approval and they would need a management representation letter signed on behalf of the authority

The Director, KPMG explained they were considering if it was appropriate to issue a public interest report at the end of their audit. If a public interest report was issued it would be a summary of their ISA 260 report and would not include new information. The authority would incur additional costs for this.

The Senior Manager, KPMG indicated that many of the individual value for money risks were interlinked. He felt the key messages indicated in the report were a lack of robust planning, whether that was regarding the use of accurate data or historical performance to inform planning and budget setting. Also a lack of robust delivery, whether that was regarding a lack of capacity or the lack of the skill set needed. There was also a lack of robust reporting, lack of clarity and detail reported at various levels in the organisation. In addition there was a lack of robust governance, meaning the ability to hold individuals to account at all levels where there was failure to deliver. He felt that was where the main issues had arisen from.

In March 2018 the authority reported that it had met its budget. When the report was considered there were a number of one off measures that had remained, around the use of reserves, the MRP calculation but it also included £35m that the auditors had removed. His view was that those items should not have been included in the financial statements and more robust consideration should have been given to their inclusion. He indicated that the budget for 2017/18 had been set on cost saving plans that were not delivered across the whole organisation. It was felt that a lack of robust planning, delivery and governance had led to those savings plans not being delivered. The key message that comes from the value for money area was that the failure to achieve value for money stemmed from not doing the basics right.

A member queried if there was a possibility that the savings listed against One Angel Square had been achieved but not recorded. The Senior Manager, KPMG explained their report had not indicated that no savings had been made, just that there had been savings budgeted for in 2017/18 that were not delivered and others that were listed in the budget that were optimistic.

A member acknowledged that the report had been long awaited and while it listed many concerns it was accepted that most were now history. It was now important how the organisation moved forward. It was hoped that EY could start the 2018/19 accounts audit as soon as possible and that it did not incur any further delays.

The Chairman was pleased that the authority had provided detailed responses to the recommendations and asked that the Executive Director of Finance provide the Committee with an action plan of those recommendations to show how they were being implemented. The Director, KPMG expanded to ask that the responsible officer and an implementation date be added to that action plan. He felt that an action tracker for the 2016/17 and 2017/18 recommendations should be created that included any actions from Internal Audit. There was a need to ensure that these recommendations were completed as the organisation moved towards unitary status. There was a need to ensure the recommendations were completed. The Committee agreed with this proposal.

The Director, KPMG highlighted the need to ensure guidance regarding the transformation programme was followed and evidenced. A central contract register was also needed which detailed all of the contracts, their dates and who the responsible officer was.

The Chairman asked Internal Audit to identify and analyse a number of the retrospective purchase orders and report back to the Committee to ensure this recommendation was addressed.

When considering Intelligent Financial Reporting, a member noted that the content of the monthly financial reports had improved dramatically. In response to a member's suggestion, the Monitoring Officer explained the Council's constitution placed the responsibility on each officer and councillor to determine whether or not they need to make a declaration of interest or gifts and hospitality and regular training is provided. If concerns were raised this would be managed under performance management. She had noted that relatively few were being declared however upon further investigation she noted that as an authority very few invitations were being accepted however she remained vigilant.

The Director, KPMG clarified their independence and explained that an additional fee of £300,000 had been agreed up to September 2018 and he had estimated additional costs of around £130,000 but this was yet to be determined. He accepted the fees were high however they had undertaken a huge amount of work which was because the authority was a high risk audit.

A member indicated there was a need to ensure these issues were addressed in order ensure that these costs were not incurred for the 2018/19 audit. More resources needed to be provided for the closedown process. The Chairman said it was widely acknowledged that the closedown team had done the best they could but they were under resourced.

The Chairman asked the LGSS Managing Director was would be done to address this. The LGSS Managing Director clarified there was an ongoing review of LGSS, which the LGSS Joint Committee were considering with a further Joint Committee meeting being arranged to take place before the end of August 2019. He clarified that they had been seeking additional resources for the closedown team but this had proved difficult due to the issues associated with Northamptonshire County Council and the proposed move towards unitary authorities. He acknowledged there was a need for additional resources within that team but a review of LGSS was not going to make it easier to provide those resources. The Executive Director of Finance recognised this position could not continue because while the committee was discussing the 2017/18 accounts, the authority still have to publish the 2018/19 accounts. The LGSS Managing Director confirmed that he had been consulted regarding the recommendations within the report and had agreed them.

RESOLVED: That the Audit Committee:

- **Noted the draft External Audit ISA 260 Report 2017/18;**
- **Agreed that the Executive Director of Finance would create and present to the Committee an action tracker for the 2016/17 and 2017/18 external audit recommendations that would also include any actions from internal audit, details of the responsible officer and an implementation date; and**
- **Agreed that Internal Audit would identify and analyse a number of the retrospective purchase orders and report back to the Committee to ensure this recommendation was addressed.**

29/19 Annual Accounts incorporating the Changes to the draft 2017/18 final accounts, the Annual Governance Statement 2017/18, Final Accounts and the Management Representation Letter

The Chairman sought advice from the Monitoring Officer regarding approvals of the accounts due to the differences in the valuations of One Angel Square. He proposed that the accounts were considered and approved subject to that one item and that delegated authority to an elected member, the Executive Director of Finance in consultation with him as Chairman was sought to approve the outstanding aspect relating to the valuation of One Angel Square. The Monitoring Officer indicated that approval would be subject to the approval being reached on the valuation and that delegated authority could be sought. Upon the Chairman's request Councillor Parker and in his absence Councillor Irving-Swift accepted the delegated responsibility on behalf of the Committee.

The Chairman indicated that the Committee had received a briefing regarding the changes to the accounts since they were last considered.

The Head of Integrated Finance Services, LGSS introduced the report (copies of which had been previously circulated) confirming that it had been a high risk audit and they had worked well with KPMG. They had needed to gather evidence from the wider organisation on a number of occasions which had led to delays in providing that evidence.

The report confirmed what was included in the accounts in terms of the narrative statement, the core financial statements. Appendix 3 of the report listed some of the larger adjustments in the account for clarity and a number of those forced the general fund into a negative position of £35.3m. The appendices mapped the original accounts position with the final position with an explanation of the reasons. This had been a complicated process and there was a need to ensure that this was not repeated in the 2018/19 accounts.

Consideration would be given to the production of the working papers and how the flow of information could be improved not only in the closedown team but in the wider finance team and within the whole organisation.

The report reference the capital dispensation that the authority had secured from the Secretary of State which meant that the £35.3m deficit could be managed within the 2018/19 accounts. This also meant that some reserves could be topped up in 2018/19 providing more resilience however this was a one-off provision.

A member confirmed that the briefing session had been very thorough and all members' questions had been responded too.

In terms of the Annual Governance Statement (AGS), the Executive Director of Finance explained that when the accounts were delayed the AGS must be updated. The statement must be a reflection of the up to date situation of the Council as well as reflecting on the relevant financial year. The AGS emphasises that the Council was in a very difficult place in 2017/18. It highlighted the significant changes to the senior management team during 2017/18 and 2018/19 with 5 appointments taking place within the past year.

The report identified a number of governance issues report in 2016/17 and 2017/18 and updates had been provided where appropriate. The Chief Internal Auditor had provided a limited assurance. In response to a member's question, the Executive Director of Finance clarified that the appointment of the Commissioners was listed in the AGS. In response the Director, KPMG confirmed that he was happy with the content of the AGS.

The Chairman said that some of the adjustments listed related to prior years and noted there were different ways of managing those, one way was a prior year adjustment and he felt it was quite an important judgement made by the accounting team and asked for clarity to be provided as to why doing a prior year adjustment had not been chosen. The Head of Integrated Finance Services, LGSS explained when the need for this started to arise the Principal Accountant – Closedown, LGSS conducted a piece of work setting out the elements of what constituted a prior year adjustment. There were different elements to this, whether it was an error that needed to be restated in the prior year or whether there was a change to a prior year estimate. Upon reflect it was judged that the estimate in terms of the capital flexibilities to deliver transformation was revisited as part of that process and a technical note was drafted and passed to KPMG.

The Chairman raised a query regarding an accounting policy which related to events post the balance sheet. Normal accounting policy was to take account any changes between the end of the reporting period and the date at which the accounts were issued. The accounts were issued on 30 May 2018 and the Going Concern assessment depended upon events that occurred after that, meaning there was an implied change. Therefore the change in the accounting policy was that it actually took account of events up to the reporting date. He proposed that the committee formally approved that change of accounting policy for this year.

In considering approval of the accounts the Chairman highlighted the going concern listed in the accounts on page 28, the contingent liability note listed in the accounts on page 69 and the use of reserves listed in the accounts on page 81. There were no further questions on the accounts at this point.

The Executive Director of Finance introduced the Management Representation Letter, a draft of which had been circulated on the morning of the meeting. He noted that a series of additional representations were listed in the letter from paragraph 15. He clarified that he had consulted with his colleagues, the leadership team, the finance team and the chief auditors in order to be comfortable signing the letter.

He noted that there were ongoing discussions regarding 16b, the valuation of One Angel Square. He clarified that before KPMG could issue their audit opinion they needed assurances in writing which the management representation letter provided.

The Chairman thanked KPMG for all of their work undertaken with NCC and he thanked the Head of Integrated Finance Services, LGSS and his team for all their work.

RESOLVED: That the Audit Committee:

1. **Approved the final 2017-18 Statement of Accounts, including the Annual Governance Statement, that have been audited by KPMG subject to the outcome of further investigations regarding the valuation of One Angel Square;**

2. **In regards to the valuation of One Angel Square, delegated authority was given to the Director of Finance, Councillor Parker or in his absence Councillor Irving-Swift, in consultation with the Independent Chairman of the Audit Committee to agree the final outcome and report back to the Audit Committee if there were significant changes; and**
3. **Agreed the change to the accounting policy for this year.**

30/19 Audit Plan 2018/19 resourcing and indicative delivery schedule

At the Chairman's invitation the Head of Audit East, LGSS introduced the report (copies of which had been previously circulated) explaining the report listed the options considered by the Internal Audit management team in order to address the resourcing issues. They had also spoken with staff regarding redeployment options as well. She clarified that the amount of audit days to be delivered as approved by the committee was 1450 however the amount of days deliverable by existing staff was 1205.

In response to a member's question the Chief Internal Auditor, LGSS explained they took a balanced approach when ensuring the audit days were delivered and did try to recruit to all vacant posts, however the current climate made it difficult to recruit. They looked to manage delivery of those days using flexibility rather than trying to expand the team. If staff were redeployed there would be an element of training required which still put a strain on the number of days deliverable.

The Chief Internal Auditor, LGSS explained that LGSS had a graduate training programme in operation however there was still not enough interest to meet the demand. All posts had formal qualifications associated with them and apprenticeships were being considered.

The Chairman noted that the review of the capital programme audit would address some of KPMG recommendations. Regarding the AGS audit, he felt it would be beneficial to include identification of which council policies needed to be refreshed to ensure they were all up to day. This could also be linked with the managers' core responsibilities compliance with polices audit. The Monitoring Officer provided some reassurance to the committee that as part of the transformation programme for unitary, there was an entire work stream considering the rationalisation of policies and updating where needed.

The Chief Internal Auditor, LGSS clarified that the number of audit days listed was a guide. During the discussion it was agreed that the quarterly Internal Audit include details of how many days the audits actually took.

RESOLVED: That the Audit Committee noted:

- **Arrangements for resourcing delivery of the audit plan; and**
- **Indicative months for starting planned audits.**

31/19 Update on the review of NEA Properties Ltd

At the Chairman's invitation the Monitoring Officer introduced the report (copies of which had been previously circulated) explaining that this was a request back to the investigator of this report to consider whether or not he would like to reword some of his recommendations in light of the fact that everyone acknowledged there were gaps in the report.

Following a long and diligent search through staff member's email, who had left the organisation and the authority's archives, there was no more information available to give to the investigator. The authority felt it could commit more resources to the investigation and not reach a different conclusion and the investigator had to decide if he had a representative sample of practice that he could then form a view on. Therefore the investigator has added words such as 'from the information I have seen' to the recommendations.

She explained it was unlikely that anything else would be found to alter that view however upon discussions with the Chairman of the Audit Committee it was decided to get the investigator to consider the evidence again.

A member indicated that the recommendation was for the committee to note the report and it doing so would be noting the gaps in the records and being unable to find the relevant information. It was felt that the committee should be recommending that lessons were learned from this and that record keeping improved.

It was explained that two members of the Audit Committee were executive members of Daventry Constituency Conservative Association. Section 17, Membership and Support mentioned that neither of those parties were members of any political party. It would be wrong not to inform the committee that one of those was Chairman of that particular constituency.

The Chairman indicated that there were some good lessons to be learned from this. The first related to Explore Communications, it was queried why it had been structured as a private company with individual shareholders who appeared to be nominees of NEA Properties. The reason for this had not been recorded anywhere.

When those types of complicated structures were put in place there was a need to ensure that everyone was aware of why it was being done and what the consequences for the individuals involved would be. He noted that the Children's Trust was due to be created and that it could have a complicated structure and have governance arrangements that would impact the Council. He suggested that the committee receive a report from the Monitoring Officer that detailed the governance arrangements for the Children's Trust and how that would impact on the Council.

A member indicated that the Council should have a system in place that enables them to access emails once a member of staff has left the authority. The Chairman queried if the Council was complying with it Freedom of Information (FOI) obligations.

In response to the points raised the Monitoring Officer explained that Explore Communications was set up by Northamptonshire Enterprise Partnership. It was not a company owned by the Council and as such she was unsure how NEA Properties could have influenced the way that Explore Communications was set up.

She clarified that there is a protocol regarding access to emails however the difficulty was that some many members of staff had left the authority, while she could access the emails she could not find any records and was unable to ask that member of staff why the records did not exist.

She explained that access to information was covered in the constitution and where a member required information to comply with their duties they could ask a senior officer however there is a need to balance the resources of officers against the time taken to prepare that information.

RESOLVED: That the Audit Committee:
- **Noted the report;**
- **Agreed that a report detailing the governance arrangements for the Children's Trust and how that would impact on the Council be provided at the appropriate time; and**
- **The Monitoring Officer would clarify the Council's compliance with FOI obligations.**

32/19 Urgent Business

There was no urgent business.

There being no further business the Chairman closed the meeting at 3.30PM.

Barbel Gale, Democratic Services Assistant Manager, Democratic Services

This Information can be made available in other formats upon request. Please contact Barbel Gale, Democratic Services Assistant Manager, Democratic Services on telephone: 01604 367730 or E-mail: bgale@northamptonshire.gov.uk

Signed: ______________________________

Date: ______________________________