

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Thursday, 25 March 2021

PRESENT: Ian Orrell Chair); Councillor Oldham (Deputy Chair); Councillors Marriott, Stone and T Eales

APOLOGIES: Councillor Alan L Bottwood and Councillor Matthew Golby

2. MINUTES

The Minutes of the meeting held on 14 December 2020 were agreed as a true and accurate record of the meeting.

3. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

4. DECLARATIONS OF INTEREST

There were none.

5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

There were none.

6. INTERNAL AUDIT UPDATE AND ANNUAL AUDIT OPINION - BDO

At the Chair's invitation, the auditor presented the follow up report from BDO and explained that the report contained a summary of all the recommendations made to Northampton Borough Council over the past three years, as demonstrated in the summary table. He explained that there were several outstanding actions due to the impact of Covid-19 and some of these actions related to training that was required. Gurpreet stated that there was a low completion rate of 9% for the year 2019/20 and for 2020/21 more time was needed to complete some of the recommendations, and these reports would be taken forward into Unitary. He then highlighted the recommendations relating to safeguarding, as discussed at the previous Audit Committee, which BDO had received no response for as detailed in the table from page 21. The auditor then concluded his report and passed over to Greg Rubins to present the Annual Audit Report and Annual Statement of Assurance.

The auditor presented the report and explained that BDO had given a limited overall assurance opinion which was disappointing but nevertheless backed up in the concluding statements in the report. He continued that BDO had been asked to focus on areas with the highest risk with known issues and these conclusions would be passed over to the West Northamptonshire Council. It was highlighted that there had been issues with communication between BDO and senior management staff at the Council which led to no response on the implementation of recommendations. He concluded that it was an honest assessment, which considered the impact of Covid-19 and communication issues.

The Chair asked if there had been discussions with West Northamptonshire Council and for more information regarding these discussions. Greg responded that there had been discussions with LGSS, and they have been involved in discussions with Northamptonshire Partnership Homes (NPH). Members asked how far Covid-19 had affected the audits and Gurpreet responded that Covid-19 had some impact as this caused time pressures with staff as well as the move to Unitary which meant that staff were being redeployed to deal with other matters. However, there are some actions which predated the Covid-19 pandemic and

implementation had still not been acted upon. Greg responded that other local authorities responding to Covid-19 had not seen a change in their audit opinion, so there was a clear deterioration in the progress of audits.

The Chair asked a question surrounding the high risk recommendations on pages 12 and 13 of the report and the relationship with the Council and NPH. The Director of Housing and Wellbeing responded that he met with NPH on a regular basis and there were some examples of good practice. He acknowledged that BDO's audit had highlighted some examples of practice that could have been done differently such as more defined roles and ways of engagement with NPH. He confirmed that the Council had not seen the deed of variation. Overall, the Council had a good relationship with NPH, and the Council was in some ways accountable for the organisation as it delivered housing services on behalf of the Council. The Director of Housing and Wellbeing concluded that he had met with officers from West Northamptonshire Council to pass on his advice and discuss best practice going forward.

The Chair echoed the good relationship the Council had with NPH and commended NPH for their sterling work over the years working in Northampton.

The Chair asked if the matter with the deed of variation had been resolved. The Monitoring Officer responded from a legal position that there was a management agreement in place that had been signed by all parties which stipulated that board meetings were to be held in public. He continued that there had been discussions around the deed of variation to change meetings from public to private, however this had not been agreed and NPH had continued to hold meetings in private. The Chief Executive continued that he had been in conversation with Stuart Lackenby, Executive Director of Adults, Communities and Wellbeing and the CEO of NPH to review the management agreement and build a rapport going forward into Unitary. He concluded that there had been suggested improvements put forward to West Northants and this would be determined by the Council at their future governance meetings.

The Chair expressed his concern at the lack of responsiveness to the safeguarding recommendations listed on page 21 of the report. He felt that it reflected poorly on the Council, principally as safeguarding is a very sensitive topic. The Director of Housing and Wellbeing admitted that he was being chased for responses and referred to the pressures on officers with additional work demands as a result of Covid-19. He apologised for his oversight, as he had responded to the growing problem of rough sleeping in Northampton and felt he tried to balance his workload by dealing with the most important safeguarding tasks. The Director of Housing and Wellbeing explained that he took full responsibility for his actions and had tried to rectify his initial lack of response by work to ensure that there was a concise hand over before he left the Council on 1 April 2021.

The Chair asked for reassurance that the recommendations would be taken forward by the Unitary Council. The Director of Housing and Wellbeing responded that he had an upcoming meeting with West Northamptonshire Council, and he had spoken to Max Armstrong from BDO. He gave his assurance to the Chair of the Audit Committee that he would deliver a thorough hand over. The Chair questioned if BDO would continue as the internal auditor for West Northamptonshire Council. BDO responded that LGSS would formally take over the responsibility for internal audit, and currently there were no plans for BDO to continue work past 31st March 2021. The Chair commented that it would be helpful to have BDO to monitor the situation.

The Chief Finance Officer stated that there were comprehensive handovers, and the Governance and Risk Manager would be migrating to the West Northamptonshire Council and all the BDO reports would be handed over. It would be the decision of the Unitary Council to appoint their auditors. The Chief Executive echoed the comments of the Chief

Finance Officer and added that under his directive, Northampton Borough Council had chosen areas of high risk audit that needed review over the past year. He concluded that although these audits would be difficult to read, it was important to face the areas that needed addressing and consistently learn and develop. The audit reviews would be handed over to West Northants Council ensuring that they put the right controls in place going forward.

The Chair thanked BDO for their thorough and professional work and agreed with the Chief Executive as the reports would be beneficial in the long run for the West Northamptonshire Council. Gurpreet Dulay from BDO shared his thanks to Jo Bonham, Stuart McGregor and Karen Middleton, as well as the Chair and the Chief Executive for working with BDO over the years.

RESOLVED: The Audit Committee noted the Internal Audit Follow Up Update and the Annual Audit Opinion from BDO.

8. INTERNAL AUDIT UPDATE - LGSS

At the Chair's invitation, Jacinta Fru presented the update report from LGSS and explained that since the demise of LGSS in December 2020, the organisation has not been able to decide on a new name, hence being referred to still as LGSS. Jacinta explained that the report provides a position statement before the move to Unitary on 1 April 2021 and showed the status of outstanding reports and progress made to date. She stated that there had been some difficulty getting engagement from service areas as staff were busy undertaking other work demands in preparation for the transition to West Northamptonshire Council. They hoped to continue the business rates review, as well as the treasury management and general ledger audits in April 2021.

Members felt concerned that with the internal audit arrangements and felt LGSS would not have the capacity to complete audits as planned. The Head of Audit, explained that they would be working closely with the Governance and Audit Manager and BDO. The Section 151 officer would also be overseeing the delivery of the audits and there would be a period of gathering inherited issues and consolidating the audit approach going forward to ensure continuity.

The Chair asked if LGSS would be taking on audit responsibility. The Head of Audit confirmed that this would be the case. The Chair and members expressed their concern about the audit function going forward and their capacity to deliver on audits. The Head of Audit responded that he couldn't provide any assurance or guarantees to the Audit Committee. It was evident that frontline services are under pressure and audit would face some challenges and obstacles as the respective authorities transition to Unitary. He explained that there were some vacancies and LGSS would backfill these vacancies and use BDO to help address capacity issue so it would not affect the audits. The Head of Audit concluded that the Chartered Institute of Public Finance and Accounting (CIPFA) have provided national guidance that audit should embrace and recognise that there will be some gaps in the audits due to the impact of Covid-19 and these can be completed at a later stage.

RESOLVED: It is recommended that the Audit Committee note the progress with delivery of the 2020-21 audit plan.

9. EXTERNAL AUDIT - UPDATE CLOSEDOWN TEAM/EY

At the Chair's invitation, the Officer from EY presented the external audit report and explained that as Steve Clark was unwell, she would be taking on the close down of the accounts with another colleague. She explained that having read the previous set of Audit Committee minutes, they were both very pleased to report they had exceeded expectations and had substantially completed their audit for 2018/19. It was highlighted the executive summary on page 58 of the report and explained that EY had been working to a testing threshold of £1.9m to make sure there were no material misstatements in the accounts. EY had identified several audit differences and management had been able to account for these adjustments. However, there were 3 unadjusted audit differences figures which come to £1m, EY agreed that these were not material and would be demonstrated in the management representation letter that the Council would need to submit. In terms of the areas that EY had worked through these are outlined in section 2 along with the risk, and these areas are extensive for a Borough Council. Therefore, EY would be delivering an unqualified opinion on the financial statements for the year 2018/19. EY had looked back at the key issues for the year with the governance action plan, football club loan and financial resilience of the organisation at that time, as well as the KPMG public report. Janet concluded her report by stating that overall EY had provided an adverse opinion as the Council did not have adequate controls in place at the time and this is explained in more detail in the report.

The Auditor, EY then presented the key outstanding areas as highlighted in appendix D of the report. He explained that since the report had been published, some of the areas had been worked on and could be removed such as the redevelopment of the Vulcan Works site. There is also an Updated Statement of Accounts for 2018-19 which would be presented to the Audit Committee. He concluded that EY still needed to finish work on their close down procedures and internal review, to ensure the quality of their work and the letter of representation was needed prior to the sign off of the accounts.

Members asked for clarification on the adverse opinion and the Chair asked for more information on the reasoning behind the inadequate opinion. The Auditor directed the Audit Committee to page 80 of the report which highlighted the value for money risks. She explained that there were several issues such as a due diligence manual regarding major transactions and training for officers across the council regarding decisions and monitoring cabinet decisions. She explained that these arrangements were not finalised at the time and led EY to deliver the adverse opinion.

RESOLVED: That the Audit Committee noted and considered the external Audit Results report and recommendations.

10. STATEMENT OF ACCOUNTS 2018-19

At the Chair's invitation, the Officer introduced the report and explained that the Audit Committee had previously considered the draft statement of accounts for 2018/19. She expressed that team had been working closely with EY over the past 12 months and the Audit Committee were asked to consider the significant adjustments and changes made. Debbie highlighted the recommendations in section 2 of the report and explained that given the demise of the authority on 31 March 2021 members were given several options and asked members to consider 2.1.3 and 2.1.4. She concluded that the accounts were to be

signed by the Chair and Chief Finance Officer before 31st March 2021 as outlined in recommendation 2.1.3. However, 2.1.4 detailed that for any unforeseen reason that the accounts would not be signed in time this would be handed over to the West Northamptonshire Council.

The Corporate Accountant then presented the report and explained that the accounts presented to the Audit Committee were still subject to final agreement with the External Auditor, and that the changes still being agreed were minor involving the improvement of wording and dealing with small rounding queries. One area where there would be a slightly larger change is in the Expenditure and Funding Analysis, which is detailed in Note 1C on page 168 of the report. The Housing Revenue Account figures were inadvertently removed from this disclosure and needed to be re-added. She explained that members had a detailed explanation of the accounts when the 2018-19 statements were originally presented in September 2019.

The Corporate Accountant summarised that she would explain the changes that had been made:

- Table 1 in the report on Page 114 detailed the impact of audit amendments on the Council's usable reserves, with £42,000 added to the General Fund and a reduction of £4,625,000 in earmarked reserves for a transfer to unusable reserves to provide for financing costs linked to the Football Club loan which was initially treated as Capital Expenditure and needed to be financed in the same way as other capital expenditure. The latter is because the principal on a number of the original loan tranches was due to be repaid in 2018-19 and would have been applied to unusable reserves to provide for the financing costs.
- Table 2 in the report, also on Page 114 details the movement in the Council's net worth as a result of the audit amendments. This included one large movement in connection with Assets under Construction where it had been agreed with the auditor to impair the value of the asset, which is currently just the site clearance costs, as the redevelopment project has not yet progressed. There are also a number of property valuation changes which have resulted in a small net increase in property values.
- Appendix A to the report details all the changes to the balance sheet from the initial published accounts and shows some large correction movements between classes of assets and liabilities which do not impact on the net worth or on useable reserves. It confirms the reduction in net worth and shows the impact on individual reserves of the audit amendments. The Appendix also shows in summary the impact on the Comprehensive Income and Expenditure Account of the changes.
- Appendix B is the revised accounts presented for approval but are still subject to final agreement with the External Auditor as explained before.
- Appendix C is the Management Letter of Representation which needs to be approved by members now and sent to the Auditors with the signed accounts.

The Corporate Accountant concluded her presentation and offered to answer any questions the Audit Committee may have. Members and the Chair were pleased to see the report and thanked the Corporate Accountant and the team for their hard work.

Members voted on the recommendations 2.1.3 and 2.1.4 and the vote was unanimously agreed.

RESOLVED:

2.1.3 That the Audit Committee delegated authority to the Chief Finance Officer and the Chair of Audit Committee on or before 31 March 2021 to:

- i) approve and sign the final Statement of Accounts for Northampton

Borough Council at Appendix B as revised by the resolution of outstanding items set out in the Audit Results Report; and
ii) approve and sign the letter of representation on behalf of the Borough Council at Appendix C, as revised by the resolution of outstanding items set out in the Audit Results Report.

2.1.4 That the Audit Committee agreed that in the event that all outstanding matters cannot be resolved to enable signing of the 2018/19 Statement of Accounts and the Letter of Representation by 31 March 2021 as set out in 2.1.2 or 2.1.3 above, that those matters shall be referred to the Audit Committee of the new West Northamptonshire Council at the earliest practicable date after 1 April 2021.

11. GOVERNANCE REPORT

At the Chair's invitation, the Governance and Risk Manager presented the report and explained that the report aimed to give assurance to the Audit Committee and detailed how the handover to West Northamptonshire Council was being delivered in a structured manner. The appendix detailed that audit and risk management would sit under the finance director for West Northamptonshire Council. The emergency planning function would be hosted in the North and there would be two separate functions for Covid-19 and one for emergency planning. The Governance and Risk Manager explained that the Health and Safety recommendations would transfer with the Health and Safety team to the Unitary Council. In terms of GDPR, the Data Protection Officer Bellinda Cotton, had been seconded to West Northants so there was some continuity. Internal Audit control would be managed by Duncan Wilkinson through the Executive Director of Finance. Finally, learning and development would be hosted in the North.

Members asked if the lead authority arrangements were designed to be last as members believed the two Unitary Councils would be self-governing. The Chief Executive responded that some functions were in place for 12 months and some were to last for a few years, but these would be subject to review.

Members questioned who had oversight of accidents and incidents. The Chief Finance Officer responded that they worked closely with the unions and the Corporate Management Board. Covid-19 had introduced new risks and health and safety took all accidents and incidents seriously. Members asked if there were any costs associated with accidents and incidents reported and the Chief Finance Officer reported that there were no material costs and most of the reporting were near misses so that the Council could work on prevention.

RESOLVED: That the Committee noted the contents of the report.

12. PUBLIC INTEREST REPORT (LOAN)

At the Chair's invitation, the Chief Finance Officer presented the report and explained that the report had to be taken to the Audit Committee as a governance action and would be taken forward with the West Northamptonshire Council. The Chief Finance Officer reported that KPMG had now released Northampton Borough Council's audit certificates.

The Chief Executive shared that under schedule 7 of the Local Audit and Accountability Act 2014, the Council were required to take the report to Full Council. Under the local government reorganisation, the Council had consulted with the West Northamptonshire

Council and ensured that it had been signed off with the West Northants Executive. It was also signed off Northampton Borough Council's Cabinet meeting on 24 March 2021. The Chief Executive confirmed that he would be formally writing to the Chief Executive of the West Northamptonshire Council to ensure the action plan is carried forward and keep EY and KPMG informed of the progress.

RESOLVED:

2.1 That the Committee note that a Public Interest Report has been received by the Council and Cabinet have provided an update and action plan.

2.2 That the Committee notes there is no further action for the Northampton Borough Council Audit Committee due to the transition to the new West Northamptonshire Council on 1 April 2021.

2.3 That the Committee notes that the Council has now received the formal Audit Certificates from KPMG in respect of 2015-16, 2016-17 and 2017-18.

13. CHIEF FINANCE OFFICER REPORT

At the Chair's invitation, the Chief Finance Officer presented the report and explained that most of the items contained in his report had already been discussed as separate items on the Audit Committee agenda. He explained that there had been 2 accounting policy changes as recommended and required by external audit as detailed in the report. These two changes related to the Council's MRP (Minimum Revenue Provision) and third party loans, and secondly to the Council's treasury investment in the CCLA. He explained that in terms of treasury management there were no issues and the treasury information would transfer as part of the structured handover to West Northamptonshire Council.

The Chief Finance Officer thanked BDO for their hard work and rigorous testing with the BEIS grants, as the Council had delivered £52m in funding to businesses. BDO had helped the Council meet Covid-19 requirements to prevent fraudulent payments and in total there was one reconciliation error as one payment left the bank late. The Chief Finance Officer thanked Jo for all her hard work and improving the governance of the Council. Finally, he thanked the Chair and the Audit Committee for their contribution over the years.

The Chair asked if the handovers to West Northamptonshire Council had been completed. The Chief Finance Officer confirmed that he had finished his handovers and the Chief Executive had received confirmation of this.

The Chair echoed the thanks of the Chief Finance Officer and the improvements made on governance. He thanked the Chief Finance Officer and the Governance and Risk Manager for their hard work and members of the Audit Committee for their contributions. He thanked Councillor Oldham for his support as Deputy Chair. The Chair closed the meeting and wished everyone the best for the future.

RESOLVED:

2.1.1 The progress towards completing the Statement of Accounts for 2018-19 and 2019-20

2.1.2 That there are two changes to Accounting Policies.

2.1.3 That there have been no reportable incidents in respect of Treasury Management, or requirements to change Treasury Management Policies.

The meeting concluded at 8:00 pm