

Meeting:	Audit and Risk Committee
Meeting Date:	18 November 2024
Publication:	Open
Council Priority:	All 5 missions
Wards:	All
Report of:	Corporate Director of Resources

Subject:

**2023/24 Report of the External Auditor KPMG
Value for Money Risk Assessment - Council**

1. Recommendations

The Committee are asked to:

- 1.1. To note KPMG's 2023/24 Value for Money Risk Assessment Report for Islington Council (Appendix 1).

2. Report summary

- 2.1. This cover report presents an external auditor report on 2023/24 Value for Money Risk Assessment for the Council which will contribute towards the final external auditor annual report. Due to the ongoing nature of the external audit of the Council's draft 2023/24 Statement of Accounts and Pension Fund, the remaining 2023/24 key audit outputs from the external audit will be reported to the 28 January 2025 Audit and Risk Committee.
- 2.2. KPMG external auditor's 2023/24 value for money risk assessment report considers and provides an assessment of whether there is a significant risk that

appropriate arrangements are not in place to achieve value for money for three domains (areas):

- (1) financial sustainability
- (2) governance, and
- (3) improving economy, efficiency and effectiveness

This is a risk assessment report (Appendix 1) and further audit work on the subject of Housing Services will be required before final conclusions on value for money are reported in the KPMG final annual auditor report in due course.

2.3. Indicative value for money risk conclusions are presented in the executive summary in the report (Appendix 1). There has been an indicative no change in the risk rating of (1) financial sustainability to “no significant risk identified” compared with 2022/23. There has been a significant risk identified compared with 2022/23 in 2 areas: (2) governance and (3) improving economy, efficiency and effectiveness criteria with “one significant risk identified.” This is illustrated by a report extract and is subject to further audit work:

Domain	Significant risk identified?
Financial sustainability	No significant risk identified
Governance	One significant risk identified
Improving economy, efficiency and effectiveness	One significant risk identified

2.4. The VFM risk assessment highlights one improvement recommendation to those charged with governance.

KPMG have identified a significant risk associated with governance, specifically arrangements over the governance and oversight over housing management. Additional procedures will be performed as a result as detailed in section 3. KMPG have identified an improvement opportunity which does not represent a significant weakness as below:

Risk assessment conclusion (VFM): During their review, KPMG have noticed that the Council do not have formal tender waiver policy and as such do not maintain a tender waiver register. KPMG would recommend that the Council should establish tender waiver policy and formalise documentation of contract

exceptions to ensure greater transparency and compliance with the procurement rules.

- 2.5. The Economy, Efficiency and Effectiveness VFM risk assessment highlights the steps performed to those charged with governance.

Risk assessment conclusion (3 E's): Based on the risk assessment procedures performed, KPMG have identified a significant risk associated with improving economy, efficiency and effectiveness in respect of aspects of the Council's housing services.

3. Details

- 3.1. Value for Money risk assessment external auditor outputs are reported in accordance with the National Audit Office Code of Audit Practice. KPMG external auditors have a responsibility to conclude on significant weaknesses in value for money arrangements. The main output from KPMG is a narrative on each of the three domains (areas) of Financial Sustainability, Governance, Economy, Efficiency and Effectiveness, summarising the work performed, any significant weaknesses and any recommendations for improvement.
- 3.2. Appendix 1 is a risk assessment report and further audit work on Housing Services will be required before final conclusions on value for money are reported in the KPMG final annual auditor report in due course.
- 3.3. KPMG external auditor's 2023/24 value for money risk assessment report considers and provides an assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money for three domains (areas).
 - 3.3.1. Indicative value for money risk conclusions are presented in the executive summary in the report (Appendix 1). There has been an indicative no change in the risk rating of (1) financial sustainability to "no significant risk identified" compared with 2022/23. There has been a significant risk identified compared with 2022/23 in 2 areas: (2) governance and (3) improving economy, efficiency and effectiveness criteria with "one significant risk identified." This is illustrated by a report extract and is subject to further audit work:

Domain	Significant risk identified?
Financial sustainability	No significant risk identified
Governance	One significant risk identified
Improving economy, efficiency and effectiveness	One significant risk identified

3.4. At this stage it will not be possible to make a direct comparison with Grant Thornton's 2022/23 VFM conclusions until further audit work is completed. By way of background, the final VFM conclusions reached for 2022/23 were (1) financial sustainability "no significant weaknesses in arrangements identified, but improvements recommendations made". In 2 areas: (2) governance and (3) improving economy, efficiency and effectiveness criteria with "no significant weaknesses in arrangements identified or improvement recommendations made." This is illustrated by an extract:

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	No risks of significant weakness identified	A No significant weaknesses in arrangements identified, but improvement recommendation made to further enhance reporting of savings to Members	A No significant weaknesses in arrangements identified, but an improvement recommendation made	↔
Governance	No risks of significant weakness identified	G We have not identified any significant weaknesses in the area and our work did not identify any areas where we considered that improvement recommendations were required	A No significant weaknesses in arrangements identified, but an improvement recommendation made	↑
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	G We have not identified any significant weaknesses in the area and our work did not identify any areas where we considered that improvement recommendations were required	A No significant weaknesses in arrangements identified, but an improvement recommendation made	↑

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

- 3.4.1. To note that the 2022/23 improvement recommendation to enhance reporting of savings to members has been implemented.

2022/23 External Audit: Financial Sustainability improvement recommendation	Update on actions
<p>There should be enhanced reporting on savings delivery to Members to show progress on the delivery of savings plans including figures for expected savings and actual savings achieved to date.</p> <p>The council should improve the clarity of the reports on savings delivery to clearly state what level of savings have been achieved at outturn. Without this, Members may not have clear sight over how expected savings are progressing.</p>	<p>Implemented.</p> <p>In the quarterly budget monitoring there is now a section in each directorate's position that flags any non-delivery or delay on savings, and there is a savings delivery tracker appendix showing the status of all in-year savings.</p>

- 3.5. The **Governance Value for Money risk assessment** highlights one improvement recommendation to those charged with governance.

- 3.5.1. Based on the risk assessment procedures performed to date, KPMG have identified a significant risk associated with governance, specifically arrangements over the governance and oversight over housing management. Additional procedures will be performed as a result. KMPG have identified an improvement opportunity, which they will formally report in their year-end report for the audit. This does not represent a significant weakness.

- 3.5.2. **Risk assessment conclusion (VFM):** During their review, KPMG have noticed that the Council do not have formal tender waiver policy and as such do not maintain a tender waiver register. KPMG would recommend that the Council should establish tender waiver policy and formalise documentation of contract exceptions to ensure greater transparency and compliance with the procurement rules.

- 3.6. The **Economy, Efficiency and Effectiveness VFM risk assessment** highlights the steps performed to those charged with governance.

- 3.6.1. **Risk assessment conclusion (3 E's):** Based on the risk assessment procedures performed, KPMG have identified a significant risk associated with improving economy, efficiency and effectiveness in respect of aspects of the Council's housing services.

3.6.2. KPMG will perform the following procedures to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money:

1. Undertake a detailed understanding of the issues raised in the report, with the support of management, linking these to underlying arrangements at the Council.
2. Understand the extent of the impact on the core arrangements to secure value for money.
3. Understand the Council's response to the issues raised and progress made addressing issues impacting on the Council's arrangements.

3.7. **Islington Council Housing Services View**

The VFM risk assessment report identifies risks related to the Housing Ombudsman Service report into the council published in October 2023.

- 3.7.1. The report of the Housing Ombudsman itself acknowledged the significant work the Council was already undertaking at that point to take action and improve services on many of the issues that Ombudsman were raising. The Council fully embraced the feedback on our services and the opportunity to drive improvement through a 87 point action plan, in response to the 21 recommendations within the report. Earlier this year, following a review of evidence by the Housing Ombudsman senior investigators, they confirmed that they were satisfied with our progress and plans for improvement and did not require any further follow up from the Council. We were also invited to feedback to them on our experience of the investigation to support their organisational learning.
- 3.7.2. The Homes and Communities Scrutiny Committee have been kept informed on progress throughout the investigation and action plan delivery and received a final report on completion of the action plan in October 2024.
- 3.7.3. The Housing Ombudsman Service works alongside the Regulator of Social Housing and the Building Safety Regulator to regulate social housing landlords and the management of higher-risk buildings. The Council underwent a pilot inspection process by the Regulator of Social Housing during the summer of 2023, to support the development of the new inspection framework. As part of this process the Regulator engaged with the Housing Ombudsman Service as part of this process and provided the council with feedback on how we would have been judged, should the inspection have been a real one. The feedback was that from their assessment the Council would have been working at a C2 level, working towards full C1 compliance, with some areas for improvement. The feedback was that the Council was self-aware about its weaker areas and was taking

improvement action to address these and had considerable areas of strengthen in some of the key areas under review, such as building and fire safety.

- 3.7.4. Our Building Safety Board and Service Improvement Board are closely monitoring our work to ensure we are delivering compliant and good quality landlord services. We are working with partners and other landlords to improve and benchmark our services and seek out good practice. We will continue to do so through these groups to ensure we meet the regulatory requirements on social landlords and the expectations of our residents. These include areas that were within the scope of the Housing Ombudsman Service investigation. An example of this is the restructure of our housing management service, delivering services to 25,000 tenants and over 10,000 leaseholders. The restructure has been informed by over 80 community drop-ins and staff consultation is underway and the delivery of the new structure will start from the end of November.
- 3.8. Audit and Risk Committee is responsible in accordance with the Council's Constitution for approving the overall Statement of Accounts including the Pension Fund. The timeline for this has moved to the 28 January 2025 Audit and Risk Committee.
4. Other options considered and the reasons for recommending this proposal
 - 4.1. Not applicable.
5. Key impacts and risks of the proposal
 - 5.1. Not applicable.
6. Contribution to the Islington Together 2030 Plan
 - 6.1. Full contribution to the objectives in the Islington Together 2030 Plan.
7. Consultation and community engagement
 - 7.1. Not applicable.
8. Implications

8.1. Financial Implications

- 8.1.1. The PSAA¹ prescribed 2023/24 audit scale fee² was £494,292 for the council and £84,723 for the Pension Fund plus VAT. This does not include any fee variations from KPMG, nor any additional prior year costs from Grant Thornton external auditors. The scale fees agreed with the PSAA do not take into account the impact of an international standard on auditing ISA315³ Identifying and Assessing the Risks of Material Misstatement (Revised). KPMG auditors are in the process of agreeing this with the Council and submitting this for PSAA approval.

8.2. Legal Implications

- 8.2.1. The Council must keep adequate accounting records and prepare an annual Statement of Accounts (3(3)) Local Audit and Accountability Act 2014. The Accounts and Audit Regulations 2015 (SI 2015/234) set out detailed requirements for the preparation, approval and publication of the Statement of Accounts (as amended by The Accounts and Audit (Amendment) Regulations 2021).
- 8.2.2. Under the National Audit Office Code of Practice Regulations, external auditors are required to make a Value for Money assessment to verify that the Council has in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

8.3. Climate Change and Environmental Implications

- 8.3.1. There are no climate change and environmental implications arising from this report.

8.4. Equalities Impact Assessment

- 8.4.1. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and

¹ Public Sector Auditor Appointments (PSAA)

² [Published and agreed SAA Audit Fees 2023/24](#)

³ International standard on auditing

promote understanding.

- 8.5. An Equalities Impact Assessment Screening was completed. A full Equalities Impact Assessment is not required in relation to this report since this agenda item provides independent views from an external auditor (KPMG).

9. **Timetable for implementation**

- 9.1. Not applicable.

Appendices: No appendices are exempt from publication.

- (1) Value for Money Risk Assessment - Council

Relevant decisions / reports:

[Agenda for Audit and Risk Committee on Monday, 18th March, 2024, 7.00 pm | Democracy in Islington](#)

[Agenda for Audit and Risk Committee on Tuesday, 21st May, 2024, 7.00 pm | Democracy in Islington](#)

[Agenda for Audit and Risk Committee on Monday, 16th September, 2024, 7.00 pm | Democracy in Islington](#)

Background papers:

<https://www.islington.gov.uk/about-the-council/funding-and-spending/statement-of-accounts>

Report approval:

Authorised by:

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Date: 12 November 2024

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