External Audit ISA260 Report 2017/18

Northampton Borough Council

—

July 2019

Summary for Audit Committee

This document summarises the key findings in relation to our 2017/18 external audit at Northampton Borough Council ('the Authority').

This report covers both our on-site work which was completed in March 2018 and March to April 2019 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	We consider that your organisational and IT controls are effective overall, but we found a number of areas for further improvement. See page 5 for further details.
Controls over key financial systems	The controls over key financial systems need some improvement. We have raised a number of recommendations in Appendix One including one regarding the review of bank reconciliations. A similar recommendation was raised by KPMG in 2016/17.
Accounts production	Although an improvement on the 2016/17 audit with regards to responses to audit queries, KPMG encountered a significant number of issues with regards to supporting working papers. The main issue being that they often did not agree to the extract of the financial statements which they were supporting which caused delays to the audit and additional queries.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements.** Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11): — **Valuation of Council Dwellings** – where assets are subject to revaluation, the code requires the year end carrying value to reflect the appropriate fair value at that date. The Authority reviews the value of assets each year end through a desktop impairment review and every fifth year performs a full revaluation. This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value. There had been a full revaluation of all council dwellings in year. No significant issues arose as a result of our work. — **Valuation of Other Land and Buildings** – there is a risk that incorrect assets are sent for revaluation and the correct procedure is not followed to ensure that assets at year end are held at the correct value. We identified an audit adjustment and a number of presentational issues within the note to the accounts. See Appendix One for details. — **Valuation of Investment Properties** – all investment properties are subject to valuations each year. No significant issues arose as a result of our work. — **Pensions Liabilities** – the pension liability is a material element of the Authority's balance sheet. The valuation relies on a number of assumptions, including the actuarial assumptions and actuarial methodology. There is a risk that the assumptions and methodology used are not reasonable. This could have a material impact in the financial statements. We found the pension liability to have balanced assumptions and have no issues to note

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Summary for Audit Committee (cont.)

We have identified four audit adjustments. See page 57 for details. These adjustments result in a net increase of £0.6million in the reported deficit on provision of services.

Based on our work, we have raised six recommendations. Details of our recommendations can be found in Appendix one.

We are now in the completion stage of the audit and we anticipate issuing our Annual Audit letter to the September 2019 Audit Committee.

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors in relation to the loan to Northampton Town Football Club. However, we are satisfied that this work does not have a material effect on the financial statements.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing a qualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

- **Governance Action Plan** – the plan was established in December 2016 and whilst we recognise that a significant amount of work has gone into the delivery of the Governance Action Plan during the 2017/18 financial year the timing of the implementation of these actions during the year means that we cannot gain assurance that there was a sufficiently systematic, robust, and objective governance process, and framework in place at the Authority through 2017/18.
- **NTFC loan and the wider loans system** – as of 31 March 2018, the external police investigation into the loan was still on-going, and the Authority continues to be involved in legal proceedings to recover related monies. Therefore, in conclusion our findings indicate that for the year 2017/18 and as at 31 March 2018 there was an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions can be made or documented.

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Summary for Audit Committee (cont.)

- **Financial resilience in the local and national economy** – we have reviewed the arrangements the Authority had in place to manage and deliver financial resilience during the 2017/18 financial year. Our work included a critical assessment of the Authority's Medium Term Financial Plan and a review to ensure that budgeting was sufficiently robust to ensure the Authority can continue to provide services effectively. We continued to meet regularly with the S151 Officer and key staff to understand the Authority's financial position and assessed the adequacy of its arrangements to ensure it had taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- **Off-payroll working through an intermediary (IR35)** – we note that the use of off-payroll arrangements are still a risk to the wider public sector, and recommend that the Audit Committee gains appropriate assurance from the Authority that it has sufficient arrangements in place to mitigate against the associated risks. This includes having appropriate policies and procedures in place in order to ensure compliance with IR35 legislation, including those which allow the Authority to identify potential Personal Service Companies during the procurement and contracting stage with new suppliers, as well as the retrospective review of arrangements in place before 6 April 2017.
- **Chief Executive payment** – there was no formal agreement or exit letter detailing the final package for the Chief Executive's departure and the payment made in lieu of notice did not follow the same approval process as other employees. Those charged with Governance did however approve the payment before it was made.

See further details on pages 19 – 34.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their help during our audit and wish them luck in the future.

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Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Despite this, we have noted a number of areas for further improvement:

- **In-scope system User Access Reviews**
- **Implementation of password policy across the IT systems**

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall, but noted a number of areas for further improvement:

- Issue 1: User Access Reviews were not carried out in the audit period for in-scope systems.
- Issue 2: Agresso password length is not assigned as per the password policy.

These weaknesses mean that we will need to do additional testing to mitigate these control failures.

Given the timeline of 2017/18 audit, IT work had to be reperformed on the Real Asset Management (RAM) system for when the final values were transacted into the system.

Recommendations are included in Appendix One.

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Controls over key financial systems

The controls over the majority of the key financial systems are sound.

However, there are some weaknesses in respect of bank reconciliation and payroll.

Additional substantive work in the above areas was therefore required.

Work completed

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are sound.

However, we noted some weaknesses in respect of individual financial systems that will impact on our audit:

- **Bank Reconciliations:** The Authority reverses all cheques which have not been presented within 6 months, this means that the bank reconciliation does not show all unpresented cheques. Unrepresented cheques from prior to October 2016 are no longer valid. At the time of testing, this amounted to £592,060.
  At the time of our interim visit, the individual performing the review of the bank reconciliations had not previously had exposure to bank reconciliations and therefore, we considered that they did not have appropriate experience to provide a challenge to the bank reconciliations.
  We noted that there were unreconciled balances at the year end that were not included in the reviewed bank reconciliation but were included in the ledger. These were not picked up on during the review process.
- **Tender Process:** Of the 3 contracts tested from the contracts register, 1 did not go through a tender process and therefore did not comply with the Authority's tender requirements. We were also unable to obtain a number of contracts for testing purposes.
- **Processing of new starters:** In our testing of new starters, the Authority were unable to retrieve 2 of the starter forms for the individual selected for testing. One of the forms did not state the salary of the starter, therefore the information was incomplete.
- **Review of Business Rates Reconciliation:** In our sample testing of the reconciliation of the total per the VOA schedule and Academy system, we noted that 3 out of 5 of the reconciliations were not signed as reviewed.

Recommendations are included in Appendix One.

The weaknesses identified resulted in additional work at year end over payroll with further increased sample sizes.

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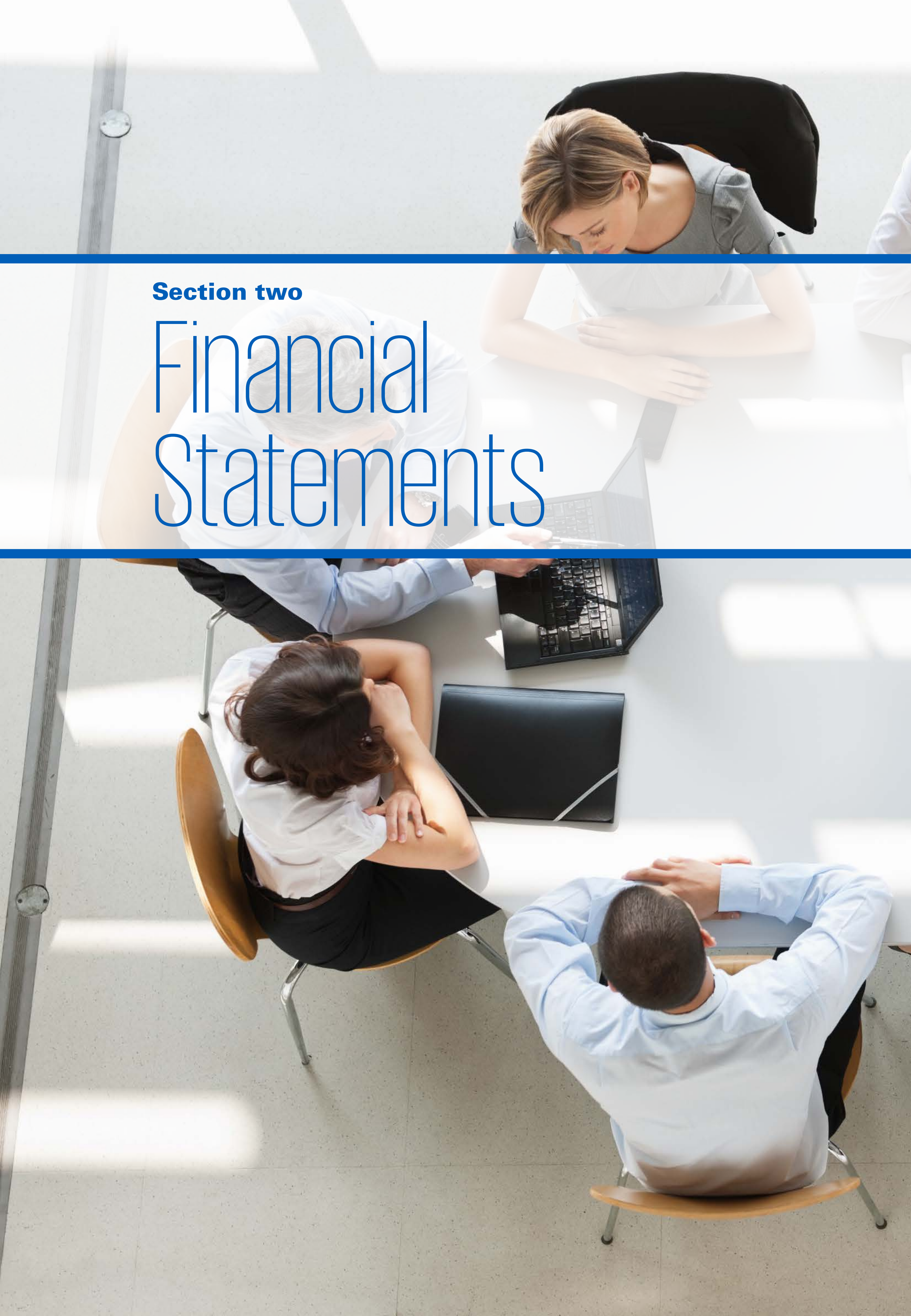
Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented the majority of the recommendations in our prior year's *2016/17 ISA 260 Report*.

Accounts practices and production process

Due to significant delays in the completion of the 2016/17 external audit (reported in our External Audit ISA260 Report 2016/17), the Authority did not submit a draft of the 2017/18 financial statements for audit until 8 March 2019.

Delays to the audit process occurred as a number of supporting work papers did not agree to the financial statements submitted for audit. The delays have meant that we spent additional time over and above what was originally planned.

The quality issues we found were similar to the issues identified in previous years. Many working papers were not checked against the requirements listed in the Accounts Audit Protocol. Despite being signed off, we found gaps in the provision of information, and breakdowns provided within working papers did not tie to the draft accounts. This demonstrates a lack of audit trail, which adds to the difficulty in understanding the Authority's working papers

We have noted in Appendix Two that our high priority recommendation (recommendation 4) raised in last year in relation to this issue, remains outstanding and is reiterated for implementation.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included on pages 26–31.

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Accounts production and audit process cont.

Implementation of recommendations

We raised 6 high priority recommendations in our 2016/17 Interim Report and 2016/17 ISA 260 Report. The Authority has implemented two of the recommendations relating to the financial statements in line with the timescales of the action plan. The table below sets out the Authority's progress against high priority recommendations. Further details are included in Appendix Two.

Issue	Progress
Review of bank reconciliations. We noted that there were a number of unreconciled items that the Authority had been unable to address. A number of the unreconciled items within the Authority's benefits bank account related to direct debit payments set up by third parties using the Authority's bank details. We also identified that a number of unreconciled items were incorrectly dated.	Issues were found in the bank reconciliations during the 2017/18 audit. A recommendation has been raised as part of the 2017/18 recommendations.
Valuation of Property, Plant and Equipment (PPE), including Council Dwellings. We faced difficulty in our work on the Authority's PPE.	Instructions to the valuer were formalised and provided for audit. The valuer reports were due to the timing of the 2017/18 audit, provided in advance of our on-site visit. No issues were found with the valuation methodology. However, due to incorrect floor areas originally supplied to GVA on an Other Land and Building asset, an updated valuation was required. This updated valuation was not transacted in RAM and an audit adjustment has been identified.
Preparation and review of audit working papers	Significant issues were again encountered as part of the 2017/18 audit. A large number of work papers did not agree to the core statements and notes that they professed to support. This led to additional external audit questions and delays and a number of presentational adjustments in the financial statements.
Fundamental review of financial reporting and accounts production process	In addition to issues encountered above, KPMG also found that there were consistency errors and presentational errors within the 2017/18 financial statements that should have been picked up had a senior management review of the financial statements been carried out prior to them being submitted for audit.
Componentisation of Council Dwellings	Fully Implemented. As per 2017/18 accounting policies, it was noted that the Authority has altered their valuation policy for Council Dwellings and now uses component accounting.
Team resilience and use of interim staff	The Closedown team worked hard to produce a set of 2017/18 accounts ready for audit. However, a number of team changes occurred throughout our audit.

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Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft 2017/18 statement of accounts on 8 March 2019 which is after the statutory deadline of end May 2018.

Quality of supporting working papers

We issued our Accounts Audit Protocol in October 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

We found quality issues in relation to the working papers. This is in addition to the delays previously highlighted. The quality of audit evidence initially provided did not align to our expectations which were set out in our Accounts Audit Protocol 2017/18. This has caused significant delays and placed additional pressures on the audit. There is an opportunity for improvements to be made in providing clear and concise audit trail of underlying transactions. We have noted in Appendix Two that our high priority recommendation (recommendation 3) raised in last year in relation to this issue, remains outstanding and is reiterated for implementation.

Response to audit queries

In general, the time taken by officers to deal with our audit queries has improved on the prior year. However, the delay to some queries still exceeded that which was expected. This was particularly acute when queries were fielded to officers outside of the core finance team.

Group audit

To gain assurance over the Authority's 2017/18 group accounts, we placed reliance on the work completed by Grant Thornton on the financial statements of the Authority's subsidiary; Northampton Partnership Homes. There are no specific matters to report pertaining to the group audit.

We are also pleased to report that there were no issues to note in relation to the consolidation process.

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Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although our audit methodology includes the risk of management override as a default significant risk, we have identified that the events surrounding the loss of £10.22 million in relation to the NTFC loan and the on-going police investigation are contributory factors in the increased risk, and specifically warrants management override of control as a significant risk to the financial statements.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

We have decreased materiality over the financial statements which resulted in additional external audit testing over the Authority's financial statements. We enhanced our use of data analytics techniques over the Authority's transactional data (for example, journals, payroll, and non-pay expenditure) to allow us to gain additional assurance over the balances.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017/18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

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Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of Council Dwellings

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. The Authority has an extensive property portfolio which requires valuation on a regular basis to reflect the service potential of these assets.

The valuation of council dwellings is a complex exercise which involves professional judgement of qualified valuation experts. There are significant estimates and judgements used by the Authority's valuer, and the valuation results are highly sensitive to these estimates and judgements. The valuation exercise is also linked to the estimates in relation to the useful economic lives of the buildings within the Authority's portfolio.

In 2015/16, the Authority's PPE totalled £548.9 million, which included £421.8 million of council dwellings. The Authority experienced significant difficulty in the valuation process for council dwellings in 2016/17. We found that the Authority had used the incorrect social housing discount factor on two occasions, and a beacon review indicated that a small number of beacons were not representative of the Authority's housing stock.

In 2016/17, the Authority engaged with three separate valuers on council dwellings: firstly its internal valuers who performed the initial valuation; then Underwoods to review the use of "appropriateness of beacons"; and finally Bruton Knowles who performed the final valuation.

In concluding the on-going 2016/17 audit we expected the final audited financial statements to include material audit adjustments. These arose from multiple incorrect iterations of valuer reports, all of which resulted in significant delays to the Authority's financial statements, which meant missing the statutory deadline by more than 10 months. There remains a risk that the Authority's council dwellings may be materially misstated due to incorrect processes and a lack of quality control over inputs into the financial statements.

Our assessment and work undertaken:

As part of our 2017/18 external audit we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed, through the use of our valuation specialist, the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

As a result of this work we determined that Council Dwellings had been valued appropriately and accounted for suitably in the financial statements. A full revaluation was undertaken in 2017/18 as a result of the issues found in the 2016/17 audit. The valuations were then discounted at the relevant social housing discount factor for the East Midlands.

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Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of Other Land and Buildings

During the course of the 2016/17 audit, we identified that the valuation of 'other land and buildings' is a significant audit risk. The Authority had engaged the following valuers to carry out work on both other land and buildings and investment properties:

— NBC's internal valuers on 26 September 2016;

— Underwoods on 6 October 2016; and

— GVA in December 2017.

The engagement of Underwoods was due to the capacity constraints within the Estates team, with internal valuers leaving the Authority. From September 2017 there are no valuation specialists remaining with the Authority, creating a gap in both capacity and capability.

This was heightened by the departure of a key member of the Closedown team, which gave us concerns over continuity and on the oversight of the valuation process.

We found there were no formal instructions sent to Underwoods therefore we were not able to confirm that Underwoods had complied with the valuation request, or that the Authority had instructed Underwoods in line with the Code requirements and other applicable valuation and accounting standards.

GVA have been engaged to complete valuations for the 2017/18 year for both 'other land and buildings' and 'investment properties', following KPMG's approval of their methodology. However, there remains a risk that incomplete or inaccurate information is sent to the valuers to inform their revaluation (e.g. classifications), and therefore incorrect methodologies are applied.

Likewise there remains a risk that the Authority's assets maybe materially misstated due to incorrect processes and a lack of quality control and review over inputs into the financial statements.

Our assessment and work undertaken:

As part of our 2017/18 external audit we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

We reviewed the information sent to the valuer and compared this information to the fixed asset register to ensure all properties that required a valuation were in scope.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). We considered the approach taken by the valuer.

No issues were noted with the skills and experience of the valuers that were engaged for the valuation of Other Land and Buildings at 31 March 2019.

A number of adjustments were made to both the values and the presentation in the notes related. See Appendix One for audit adjustments.

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Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of Investment Properties

The Authority has a portfolio of investment property, the full portfolio of which requires valuation on an annual basis. Our work in 2016/17 identified that the assumptions and methodology used were not in line with RICS guidance and standard industry practice. For example, the Authority's valuers had included purchaser's costs within the value of the property, thus overstating the assets that were valued. We also noted that not all assets which were valued were transacted within the fixed asset register. Material adjustments were required.

GVA will carry out the 2017/18 valuations.

There is a risk that incomplete or inaccurate information is sent to the valuers to inform their revaluation, and that the Authority's assets maybe materially misstated due to incorrect processes and a lack of quality control and review over inputs into the financial statements.

Our assessment and work undertaken:

As part of our 2017/18 external audit work we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

We reviewed the information sent to the valuer and compared this information to the fixed asset register to ensure all properties that required a valuation were in scope. As a result of this work we determined that Investment Properties had been valued appropriately and accounted for suitably in the financial statements.

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Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Northamptonshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our 2017/18 external audit work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary. As part of this work we assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Hymans Robertson.

We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the Actuary to understand how these assets are allocated across participating bodies and re-performed this allocation.

As a result of this work we determined that the liability has balanced assumptions and we have no issues to note. We have set out our view of the assumptions used in valuing pension liabilities at page 16.

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Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Subjective areas	2016/17	2017/18	Commentary
Provisions (excluding NDR)	3	3	We tested the Authority's provision against IAS 37 with no issues to note. We consider the provision disclosures to be proportionate.
NDR provisions	3	3	We tested the Authority's provision against IAS 37 with no issues to note. We consider the provision disclosures to be proportionate.
Pension liability	3	3	We have performed work on the assumptions used and have deemed the assumptions to be reasonable and within our expectations. Assumptions used are also in line with other local authorities within the Northamptonshire Pension Fund. We have requested specific representations in relation to this and have reiterated our previously raised, but not implemented, recommended 9 in Appendix Two.

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Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements following approval of the Statement of Accounts by the Audit Committee.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix Four) for this year's audit of the Authority was set at £0.975 million. Audit differences below £45,000 are not considered significant.

Our audit identified a total of four significant audit differences, which we set out in Appendix Three. It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a large number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code'). We have set out details of significant presentational adjustments in Appendix Three. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Authority's 2017/18 Annual Governance Statement (AGS) and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the Authority's 2017/18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

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Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will then prepare and issue our 2017/18 Annual Audit Letter and conclude our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Northampton Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix Six in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

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Section three

Value for Money Arrangements

Specific value for money risk areas

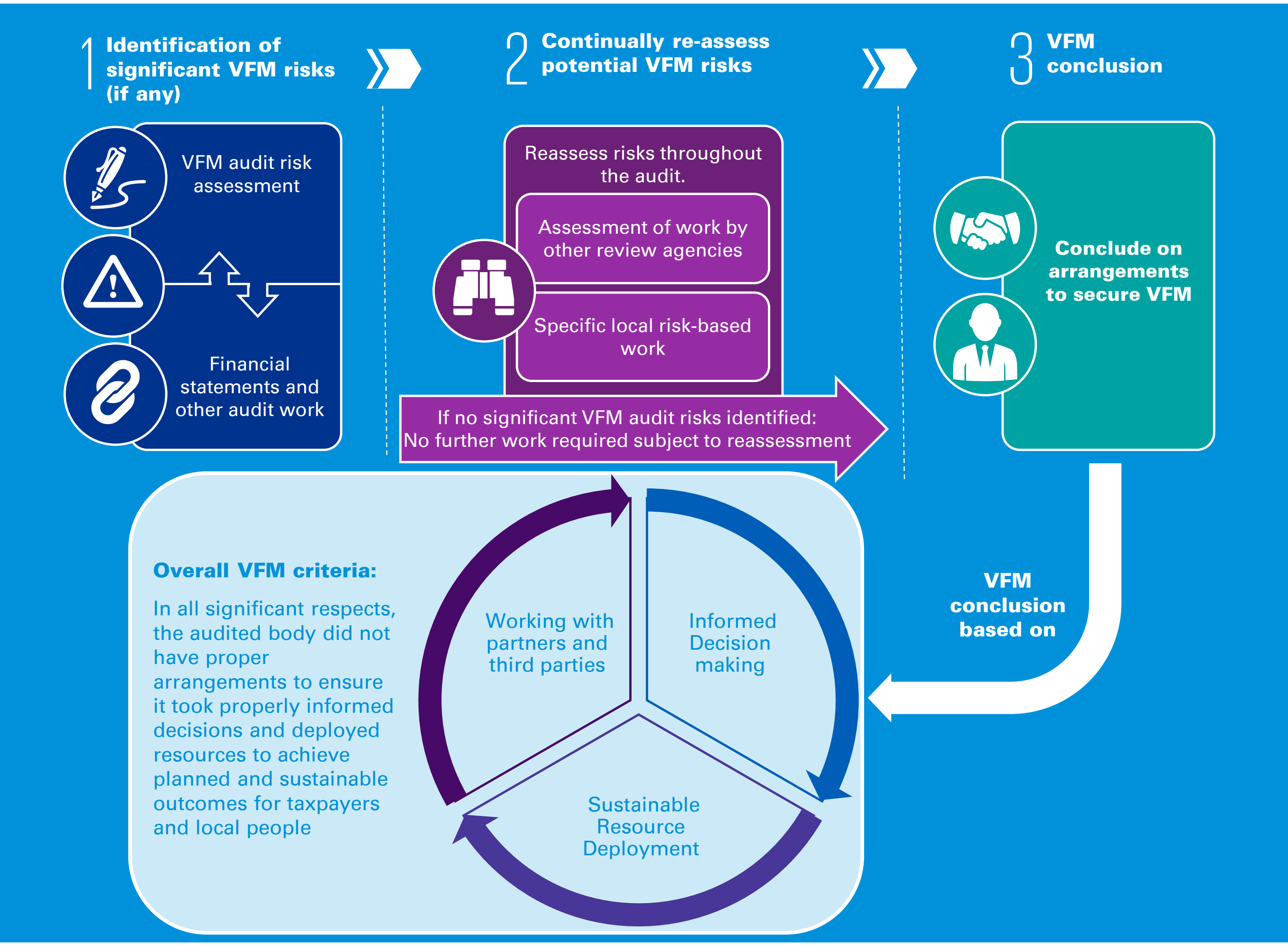
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has not made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



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Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Governance Action Plan			
NTFC Loan and wider loans system			
Financial Resilience in the local and national economy			
Off-payroll working through an intermediary (IR35)			
Chief Executive Payment			

In consideration of the above, we have concluded that in 2017/18, the Authority has not made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

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Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017/18* we have identified 5 risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In some cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate however we anticipate issuing an adverse value for money opinion.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

We have highlighted those risks which were identified after we presented our *External Audit Plan 2017/18* in November 2018.

Risk:	**Governance Action Plan** In 2016/17 we obtained the Authority's Governance Action Plan and reviewed reported progress against this Plan. We have documented how the Authority measures and evaluates performance against each action, and assess this against supporting documentation. As of 31 August 2017, the Authority recorded that 22 actions had been implemented (46%), whilst 21 had been partially implemented (44%) and a further 4 (8%) not implemented, and 1 (2%) to be confirmed.
Our assessment and work undertaken:	During the course of the 2017/18 financial year, the Authority has put a lot of time, effort, and resource into implementing its Governance Action Plan (the Plan). The Plan is a key document for the Authority and it is overseen by the Leader of the Council, the Chief Executive, as well as the rest of the Corporate Management Board. The plan includes 48 actions. During the year the Audit Committee reviews progress as part of its programme of work. There has been further progress in implementing the relevant actions by their due dates, although some actions have been slower than others to deliver due to competing pressures on resource. For example, in September 2017 only 46% of the Plan had been implemented, and in November 2017 this was 60%. However, as of 31 March 2018, the Authority had completed 88% of the actions detailed in its Governance Action Plan, with 5 (10%) partly implemented, and 1 (2%) still be confirmed as to its status. Of those six actions, all are deemed to be high priority, and three are overdue as of 31 March 2018. Of the partially implemented, only two are deemed to be 75% completed or more. These actions include risk management training for Officers and Members, the delivery of the 'Licence to Practice Organisational Development and Training', the establishment of a due diligence and compliance manual, and delivery of training on Equality Impact Assessments. Within the risk management actions, the Borough Secretary, and Regeneration, Planning and Enterprise Directorates have completed service area risk registers, and this is complemented by the directorate risk registers within Customers and Communities, and Housing and Wellbeing.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

A risk register for Members had not been completed by 2017/18 year end, and the Authority noted that work was planned to continue on this into 2018/19. Likewise, the corporate risk register should be updated quarterly but had last been updated in December 2017.

Since his arrival, the new Chief Executive has also restructured the governance within the Authority, with four Boards now in place: Corporate Delivery Board, Corporate Performance Board, Corporate Improvement Board, and Corporate Management Board.

Whilst we recognise that a significant amount of work has gone into the delivery of the Governance Action Plan during the 2017/18 financial year, and that the majority of the plan has now, at the date of this report in July 2019, been implemented with only 10% of actions due to be delivered (and 5% overdue), the timing of the implementation of these actions during the year means that we cannot gain assurance that there was a sufficiently systematic, robust, and objective governance process, and framework in place at the Authority through 2017/18.

This is somewhat to be expected given that the Plan was only established in December 2016. As noted above, half way through the year only 46% of actions had been implemented. It is therefore clear that the actions cannot be said to have been suitably embedded during the 2017/18 financial year and as such we therefore are unable to assess whether it was operating effectively and/or as designed etc. However, we can state that if the actions already implemented are now embedded within the Authority, then it appears to have placed itself in a good position for 2018/19 onwards.

As a result of our work in respect of this risk, we are therefore unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we will issue an adverse value for money opinion for the 2017/18 year.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

NTFC loan and wider loans system

In 2015/16, we issued an adverse conclusion on the Authority's arrangements to secure value for money. We were not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to loans is adequate. A recommendation was raised during our 2016/17 audit regarding the controls and processes for issuing loans, due to finding that there is no systematic formalised system of recording or documenting the due diligence process, or results from the loan approval process. In addition, we came to the conclusion the accountability and decision making process is not sufficiently robust. Subsequent to the loss of £10.22million, the Authority has approved up to £950,000 to be spent on recovering lost monies.

Our assessment and work undertaken:

As reported in our previous external audit reports the Authority advanced a loan of £10.25 million to Northampton Town Football Club (NTFC) to carry out works to improve stadium facilities and develop a hotel. The loans were due to be repaid through the provision of a first return to the Authority on the development of land adjacent to the stadium combined with some land previously leased to NTFC, and then through enhanced revenue streams available to NTFC through the hotel and stadium development. The loan made to NTFC and the financial management concerns around it have been widely publicised.

Whilst our review into the circumstances surrounding the loan as well as subsequent actions undertaken is not yet complete, we have considered the information and findings so far as part of our VFM conclusion. We are unable to comment further on the findings of this specific review until complete.

During 2016/17, an internal audit report into the loan was presented to the Authority's Audit Committee in December 2016. A number of issues were raised and recommendations produced as a result. Internal Audit stated:

"Cabinet approved a loan of up to £12m, but this decision was based on limited information as a business case was not made available. A number of conditions were made by Cabinet and we have been unable to confirm that these were complied with fully, addressing all concerns. For these reasons, we have been unable to confirm that decisions taken were in line with the delegated authority…the information reviewed demonstrates that there was a lack of formal processes implemented and adhered to regarding risk management, project management, management information and performance management. We attempted to reconstruct the thought process for the decision made and for subsequent monitoring. Our view is that the Council failed to demonstrate this in its data room. This was made extremely difficult because of a lack of an approved business case, appropriate independent advice and documented risk management and governance processes. It is apparent that the overriding focus on the Sixfields redevelopment was on the operational aspects and subsequent governance arrangements failed to identify and address adequately the loan agreement."

We have taken into account our findings from our audits from 2015/16 onwards, our on-going investigation into the circumstances surrounding the loan agreement, and the internal audit report referenced above.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Due diligence also forms a key work strand of the Governance Action Plan noted overleaf. Following the issues raised, Officers initially put a hold on the issuing of any loans pending a review of due diligence processes. A summary of existing loans and key documentation have been compiled and centralised in one place. An extensive loans compliance checklist has been developed, and reviewed by the Authority's banker Barclays.

However, during the 2017/18 financial year, the action to establish a due diligence and compliance manual had not yet been delivered, and as of 31 March 2018 the action was overdue. Production of the manual has been delayed as the Authority has yet to agree a methodology, and was also considering whether external / consultancy support was required. Likewise, within the 'Effective Decisions' work strand of the Governance Action Plan, as of 31 March 2018, the Authority had yet to implement delivery of the 'Licence to Practice Organisational Development and Training Plan' which would address key governance areas to improve skill-sets of Officers and Members, including due diligence regarding decisions such as the NTFC loan.

However, we note that the Authority has made some progress, although until a time that all such actions are implemented and embedded we are unable to provide assurance that new processes and policies have been followed.

We have taken into account our findings from the 2015/16 and 2016/17 audits, our on-going investigation into the circumstances surrounding the loan agreement, and the internal audit report. Our findings indicate that there is an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions can be made or documented. As of 31 March 2018, the external police investigation into the loan was still on-going, and the Authority continues to be involved in legal proceedings to recover related monies.

Therefore, in conclusion our findings indicate that for the year 2017/18 and as at 31 March 2018 there was an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions could be made or documented.

As a result of our work in respect of this risk, we are therefore unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we will issue an adverse value for money opinion for the 2017/18 year.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

Financial resilience in the local and national economy

Like most of local government, Northampton Borough Council faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the County Council's financial difficulties.

For 2017/18, the Authority set a net budget of £29.1 million, which includes the requirement to achieve £2.8 million of savings during the financial year, being a mixture of additional income generation (£683k) and reduced expenditure from general efficiencies (£1.6 million), economic growth (£172k) and other technical savings including debt financing (£282k).

Over the subsequent years, the Authority has set an overall net budget requirement which increases from £29.1million in 2017/18 to £32.6 million in 2021/22.

Feeding into the budget, the Authority has assumed a decrease in Revenue Support Grant from Central Government from £1.8 million next financial year to zero funding from 2019/20 onwards. Additionally funding from the New Homes Bonus reduces from £4.2 million in 2017/18 to £2.1 million by 2021/22. However, it is worth noting that the Authority has budgeted based on the assumption that funding from the Business Rates Retention Scheme will continue to increase during the period, from £7.6 million to £8.1 million by the end of the Medium Term Financial Plan. There is a risk attached to this due to the uncertainty provided by Central Government as to how this scheme will operate going forward and the Authority needs to ensure that budgeted assumptions are based on the latest information available to them and updated accordingly as the future of the Scheme is debated.

The financial pressure on the Authority is therefore likely to increase over the coming years and it is imperative that work continues to identify savings well in advance of the most difficult periods within the Medium Term Financial Plan, most especially savings which may require initial investment and a longer lead time to realise their benefits. The Authority has a positive track record of delivering savings, but this will only get more difficult. The Medium Term Financial Plan only detailed savings predicted up until 2020/21, and over this period a total of £7.5 million have been included in the budgets, although the Authority has set far higher targets of £21.9 million. This leaves unidentified savings of £14.4 million from 2018/19 onwards.

Our assessment and work undertaken:

Financial Resilience

Like most of local government, Northampton Borough Council faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the County Council's financial difficulties.

General Expenditure

During 2017/18, the Authority set a General Fund Budget for controllable service budgets of £29.1 million which included the requirement to achieve £2.8 million of savings during the financial year, being a mixture of additional income generation (£683k) and reduced expenditure from general efficiencies (£1.6 million), economic growth (£172k) and other technical savings including debt financing (£282k). This also included a £649k contribution to reserves to help deal with budget pressures arising in the medium term, as well as providing a source of funding for future invest to save initiatives.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

During the year, a revised budget of £31.844 million was set, the actual outturn reported against this was £30.820 million, a £1.024 million net variance (underspend), mainly attributable to a £1.241 million underspend relating to Customers and Communities which included £636k savings from the Environmental Services Contract and a one year suspension of LGPF employer contributions, as well as £360k increased income from car parking. Further underspends also occurred with LGSS (£535k) relating to insurance costs and an unused contingency for pensions auto-enrolment.

The areas of greatest overspend for the Authority were benefits, where higher temporary accommodation costs led to a greater Housing Benefits subsidy loss (£1.2 million), private sector housing (£356k overspend), and asset management (£324k overspend).

Reserves
The Authority decided to use the £1.024 million net underspend in two ways; firstly using £0.432 million towards project budget carry forwards (an increase from £99k carried forward as of March 2017), and secondly to use the remaining £0.592 million as a contribution towards the MTFP Cashflow Reserve to mitigate against risk of reduced central government funding, increased service costs, and increased contract management costs.
As a result, the minimum level of £5.5 million General Fund Balances remained as of 31 March 2018.

Overall, as of year-end, the Authority held £22.911 million of General Fund earmarked reserves to mitigate against specific risks, as well as invest in service improvement. This is a small decrease from the £23.003 million held at the end of March 2017. Of this, £10 million was specifically set aside to fund new vehicles and equipment required as part of the new Environmental Services contract, planned to be drawn at £1 million per year for the next decade. As noted above, additional funding was put into the MTFP Cashflow Reserve, which totalled £3.4 million and is used to mitigate against any delays in delivering planned services in the Medium Term Financial Plan. A further £2 million is set aside to fund the delivery of the Efficiency Plan.

Service specific reserves include Customers and Communities reserve of £0.683 million, Regeneration, Enterprise and Planning of £0.543 million, and Housing Reserves of £0.6 million.

Housing Revenue Account
The Housing Revenue Account had a net budget of £5.7 million during the year (-£25.492 within Budget Manager's Control, and £31.22 million Technical Account Adjustments), but reported an underspend of £1.467 million (£966k in 2016/17). This underspend was a result of a multitude of factors including lower interest and financing costs (£289k underspend), £454k additional income through service charges, £292k increased rent payments, and £240k lower repairs and maintenance costs.

The Authority maintained a £5 million HRA working balance as of March 2018, the same as at the previous year end, with a further £6.796 million of earmarked reserves (compared to £11.057 million in March 2017), for a total of £11.796 million (down from £16.057 million in March 2017), including £4.995 million for the capital programme, and £1 million for service improvement.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

The HRA had an approved capital budget of £36.001 million, but the outturn was £24.006 million, an effective £11.995 million underspend, although this is reduced to £11.032 million when £964k of carry forwards are taken into account.

Of this, £11.028 million was underspent on new builds, which relate to the Dallington Grange project.

Capital Budget

The Authority's capital budget for 2017/18 was originally set at an initial £20.679 million, including £17.77 million within the development pool at the time of approval. Of this, £4.395 million of funding was expected to be sourced via borrowing (including self-funded). The budget proposals included details regarding the Authority's enhanced governance arrangements in relation to capital projects via the Capital Programme Board, into the development pool for approval by Cabinet and Council.

During the year, subsequent changes to the budget were made and outturn reports show the latest approved budget was £24.274 million, with an approved adjusted carry forward for 2018/19 of £13.951 million. This has resulted in an end of year adjusted budget of £10.323 million.

The capital outturn for the year was £6.527 million, an initial underspend of £3.796 million. However, a further £3.456 million of this was expected to be carried forward, meaning a reduced underspend of £340k. This underspend was attributable to a number of small underspends across a variety of projects, including £103k relating to the Cinepod at the Royal & Derngate Theatre, a £73k refund from Northamptonshire County Council relating to the Giles Street Improvements, and £154k relating to unspent external grant funding relating to DFG's Owner Occupiers programme.

Of the total spent, the Authority used corporate borrowing of £2.488 million, £2.209 million of grants and contributions, and £1.668 million of capital receipts (against budget of £2.584 million). Of the budgeted £839k of reserves to be spent on capital, only £47k was used, with the remaining £792k used to repay historic borrowing, facilitating new borrowing used to fund the National Grid land purchase.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Medium Term Financial Plan

For 2018/19, the Authority set a net budget of £28.49 million (decreased from £29.1 million in 2017/18), which includes the requirement to achieve £1.822 million of savings and efficiencies during the financial year (£2.8 million in 2017/18), against a further £4.25 million of spending growth.

'Savings' include a mixture of additional income generation (£1.36 million) through car parking charges and other fees, as well as a reduced number of actual savings programmes (total of £462k of efficiencies against £1.6 million in 2017/18). Growth mainly comes from a net budget increase in environmental services of £4.02 million arising from the new environmental contract.

2018/19 is the final year where the Authority has budgeted for Revenue Support Grant from Central Government, which accounts for £886k of the £12.312 million total government funding, in addition to £15.793 million of council tax, and a £383k surplus on the collection fund.

The MTFP is set until 2022/23 and over the subsequent years, the Authority's net budget requirement decreases by £1.052 million to £27.438 million in 2019/20, before gradually increasing again over the next three years to a budget requirement of £28.897 million by 2022/23.

Whilst Central Government funding decreases from £12.314 million to £9.432 million over the five year period from 2018/19 to 2021/22, this is offset at the same time by increases in council tax income from £15.794 million to £17.962 million, resulting in an overall net reduction in income of £714k. This is based on an assumption of a £5 annual increase in the Band D Council Tax.

Therefore over this period, the majority of financial pressure arises from increased expenditure in corporate budgets. The service base budget increases from £27.474 million in 2018/19 to £28.440 million in 2022/23. Whilst reducing value in each subsequent year, the new environmental services contract adds further net budget increases during the five year period of the MTFP, averaging £2.636 million each year.

One further significant pressure on the Authority is debt financing, with costs more than doubling from £1.456 million in 2018/19 to £3.155 million by 2022/23.
Some mitigation is offered by the use of reserves during the period, with the Authority planning on drawing down a total of £6.023 million in the next five years.

It is also worth noting again that the Authority has budgeted based on the assumption that funding from the Business Rates Retention Scheme will continue to increase during the period, from £8.345 million to £8.401 million by the end of the Medium Term Financial Plan. There is a risk attached to this due to the uncertainty provided by Central Government as to how this scheme will operate going forward and the Authority needs to ensure that budgeted assumptions are based on the latest information available to them and updated accordingly as the future of the Scheme is debated.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

The Medium Term Financial Plan details savings and efficiencies over the next five years, gradually increasing to £3.033 million in 2022/23. The majority of income generation and cost savings are embedded from the first year (2018/19), and this increase is mainly driven from growing efficiencies predicted from organisational redesign (from £320k to £561k over five years), and a general fund sharing of support service savings (from £0k to £769k in five years' time).

However, the MTFP as it stands results in budget gaps from 2020/21 onwards for the next three years, reaching a gap of £1.503 million by 2022/23. This clearly identifies the need for more savings and efficiencies to be made, but these are yet to be planned. The Authority notes that these will be achieved via the programmes set out in the Efficiencies and Medium Term Financial Strategy, through areas such as partnerships, digital channels, further income generation, review of staffing and structures, and further investment and commercial opportunities.

As reported in our ISA260 2016/17, the financial pressure on the Authority is therefore likely to continue to increase over the coming years and it is imperative that work continues to identify savings well in advance of the most difficult periods within the Medium Term Financial Plan, most especially savings which may require initial investment and a longer lead time to realise their benefits. The Authority has a positive track record of delivering savings, but this will only get more difficult.

In its current form, the Authority will need to make further difficult decisions in respect of other sources of funding such as Council Tax, as more Authorities begin to increase this in order to mitigate the financial pressures felt elsewhere and maintain the desired level of services to the public. Careful financial planning is required, and the Authority should also ensure that the assumptions it feeds into its Medium Term Financial Strategy (such as demographics, service demand etc.) are regularly refreshed to provide an up-to-date and reliable indicator of future pressure points.

Unitary Status

It is also important to note that the plan for Unitary Councils in Northamptonshire are now planned to go-live in April 2021 and therefore it is important to ensure that all financial planning has consideration of the impact that programmes may have on this change in structure. Whilst it remains imperative that the Authority operates as efficiently as it can do, future opportunities for wider savings maybe achievable once the current structure of local government in Northamptonshire has been changed from one County and many Districts / Boroughs, to two Unitary Councils.

Many of the savings programmes in operation can, and should, continue, but the Authority should also be conscious of the medium and long-term implications of these when amalgamating with its partner Councils in the future, particularly when they relate to contracts, services or systems which will be shared going forward. Current investment in service redesign therefore should be reviewed to understand whether the benefits will be derived in time to make the projects worthwhile, or whether they should be reconsidered in light of a wider service amalgamation and redesign under a Unitary body.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

As a result, there is an overall risk that some elements of current investment do not deliver the benefits they are designed to achieve, due to the impact of incoming Unitary status, whilst longer-term commitments and contracts tie the successor Authority into financial commitments it would otherwise have jointly avoided.

Due to the restructuring of local government in the County, there is also a risk that reserves are utilised more quickly than otherwise would be intended in order to ensure they are spent within the Borough's geographical area rather than be amalgamated into wider Unitary reserves from 2021 onwards.

Conclusion

We have reviewed the arrangements the Authority has in place to manage and deliver financial resilience during the 2017/18 financial year.

Our work has included a critical assessment of the Authority's Medium Term Financial Plan and a review to ensure that budgeting is sufficiently robust to ensure the Authority can continue to provide services effectively.

We continued to meet regularly with the S151 Officer and key staff to understand the Authority's financial position and assessed the adequacy of its arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have no other issues to raise in respect of this particular VFM risk.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

Off-payroll working through an intermediary (IR35)

Following the Finance Bill 2017, the Government introduced revised legislation relating to off-payroll working in the public sector. The measure applies to payments made on or after 6 April 2017, but also applies to contracts entered into before that date.

The off-payroll working rules are in place to make sure that, where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and National Insurance contributions (NICs) as an employee.

- Public Sector authorities will be responsible for identifying and reviewing the employment status of all workers engaged through personal service intermediaries (referred to throughout as Personal Service Companies ("PSC") including those provided via an agency.
- Where, in the absence of the PSC, the worker is deemed to be an employee of the Public Sector Council, it, (or the agency) is required to calculate the deemed payment being made to the worker.
- Account for PAYE and National Insurance (employee and employer) to HMRC on the deemed payment.
- Financial sanctions will be applied where the legislation is not applied or applied incorrectly e.g. where employment status is incorrectly determined HMRC will collect any underpaid tax and NIC from the Public Sector Council.

HMRC is committed to enforcing the new rules and has set up an employment status and intermediaries team to review the arrangements.

Our assessment and work undertaken:

We originally included a VFM risk associated with the implementation of IR35 legislation relating to off-payroll working in the public sector. The measure applies to payments made on or after 6 April 2017, but also applies to contracts entered into before that date.

The off-payroll working rules are in place to make sure that, where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and National Insurance Contributions (NICs) as an employee. Public Sector authorities will be responsible for identifying and reviewing the employment status of all workers engaged through personal service intermediaries (referred to throughout as Personal Service Companies ("PSC") including those provided via an agency.

During the course of work, in accordance with applicable NAO guidance regarding Value for Money considerations, we removed this from our planned work. Having had consideration of the risks relating to the Governance Action Plan, and the NTFC loan, we concluded that we had undertaken sufficient and appropriate work in order to form our value for money opinion.

We note that the use of off-payroll arrangements are still a risk to the wider public sector, and recommend that the Audit Committee gains appropriate assurance for the Authority that it has sufficient arrangements in place to mitigate against the associated risks. This includes

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

having appropriate policies and procedures in place in order to ensure compliance with IR35 legislation, including those which allow the Authority to identify potential Personal Service Companies during the procurement and contracting stage with new suppliers, as well as the retrospective review of arrangements in place before 6 April 2017.

We also note that the Authority's historical use of interims contributes to this risk, and the Audit Committee should also assure itself that appropriate arrangements are in place to ensure that value for money considerations are at the forefront of all such arrangements, whether they are employed directly by the Authority or contracted via the shared services arrangement with LGSS.

The Authority may wish to obtain specialist tax advice to ensure it is fully compliant in this matter.

We have no other issues to raise in respect of this particular VFM risk.

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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

Chief Executive Payment

The Authority's previous Chief Executive departed the organisation in July 2017. The Chief Executive also acts in a statutory role as the Head of Paid Service. There is a risk that the terms and conditions of the departure, including any exit package, did not provide value for money to the Authority.

Our assessment and work undertaken:

We reviewed the circumstances surrounding the departure of the Chief Executive in July 2017. We reviewed payments made to the Chief Executive on leaving the Authority. However, we noted that there was limited associated documentation, but the payments had been reviewed and approved by the Borough Secretary and Monitoring Officer and the Borough's governance process, which was deemed appropriate.

We reviewed the process put in place by the Authority following the Chief Executive's departure to ensure that statutory roles (including the Section 151 Officer) were appropriately filled during any gap in appointment.

As part of our standard audit approach, we also reviewed exit packages for other staff leaving the Authority in the year, including those made through redundancy or early retirement.

We reviewed the disclosures and related narrative provided in the financial statements by the Authority in order to ensure they are appropriate and compliant with guidance. Presentational amendments were made as a result.

We have no other issues to raise in respect of this particular VFM risk.

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Appendices

Key issues and recommendations

Our audit work on the Authority's 2017/18 financial statements has identified some issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: **1**	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: **5**	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: **0**

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Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
1	1	**Review of Bank Reconciliations** ***Risk*** At interim we reviewed the month 11 bank reconciliation. We reviewed the year end bank reconciliation at our visit in March 2019. At interim we found the following risks: **Unpresented Cheques** – The Authority reverses all cheques which have not been presented within 6 months, this means that the bank reconciliation does not show all unpresented cheques pertaining to the Authority. When such cheques are later cashed, the Authority inserts a dummy entry into the general ledger (GL) so that the transaction on the bank account can be matched off. In October 2016, the Authority changed from HSBC to Barclays Bank. Therefore, unpresented cheques from before October 2016 are no longer valid. The cumulative amount of unpresented cheques within the Barclays accounts which has been reversed out of the GL and therefore showing in the bank reconciliations at the time of interim (March 2018) was £592,060. **Review** – The individual reviewing the bank reconciliations at the time of the interim audit was doing so after another team member left the organisation. However, the individual had not previously had exposure to the preparation of bank reconciliations. Therefore, we determined that the individual did not have the appropriate experience to perform the review. At our visit for the final audit we found the following risks: During our testing we noted that there were unreconciled balances that were not included in the bank reconciliation, but were included in the ledger. The bank reconciliation was reviewed on 20 April 2018 and did not pick up on the differing totals on the ledger and within the bank reconciliation. We noted that the reconciliation was reviewed by a different individual to the reviewer at interim. We were satisfied that this individual had the appropriate experience to perform the review. ***Recommendation*** The Authority should ensure that all unreconciled items are included within the bank reconciliation. The Authority should investigate and resolve all outstanding unreconciled bank reconciliation items in the month in which it occurs. The Authority should ensure that the review process is robust and that reviewers have the appropriate experience and expertise to carry out the review of the bank reconciliations.	NBC has raised this issue as part of the regular contract review, LGSS Internal Audit are now required to check that the activity is being undertaken on a regular basis and provide assurance to the NBC Chief Finance Officer. The implementation date reflects further improvements required to ensure full assurance. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 August 2019

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Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	2	**Adherence to the tendering process** ***Risk*** During our testing of other expenditure, we considered compliance with the tendering process as part of procurement. We tested a sample of the contracts on the contracts register. Of these, one of the contracts was not subject to the tendering process and therefore did not comply with the Authority's tendering requirement. We tested a sample of 10 contracts from the Authority's list of expenditure up to February 2018: — For 2 samples, the contracts and their tenders could not be located as the related staff had left the organisations. — For 2 samples, signed contracts were not in place when they should have been. The Authority informed us that on-going tendering processes were underway to rectify this. — For 3 samples, the contracts were not listed on the contracts register provided by LGSS. There was, however, a compliant tender process. Whilst we were unable to see the tender documents for 5 of the sample items, expenditure on these samples was below the EU tendering limits but above the organisation's limit of £75,000. ***Recommendation*** The Authority should ensure that they apply and comply with their tendering process fully and consistently across all relevant contracts.	Officers have and will continue to be reminded of the need to comply with all Procurement rules. The new Internal Auditors have also been guided to this area to identify further specific areas for improvement. As part of the contract monitoring meetings, LGSS Procurement have been reminded of the need for the service to be more proactive in improving the process and compliance. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 August 2019
3	2	***Processing of new starters and retention of data*** ***Risk*** During our testing of new starters to the organisation, we were unable to obtain the new starter forms for two of the new starters selected for testing. In another case, we were unable to identify the salary of the individual from the new starter form as the documentation was incomplete. ***Recommendation*** The Authority should ensure that they retain all of the appropriate information for new starters to ensure that the information is complete and that there is a clear audit trail.	There has been an issue in that the use of starter/leavers information is used to as part of system access controls. NBC staff can be controlled and the system improved. However NBC is reliant upon LGSS to ensure it complies in respect of its staff accessing NBC systems and data. LGSS Internal Audit are tasked with providing compliance assurance. ***Responsible Officer*** HR Manager – Karen Marriott / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 June 2019

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Key issues and recommendations (cont.)

No	Risk	Issue & Recommendation	Management Response
4	2	***Review of Business Rates Reconciliation*** ***Risk*** As part of the business rates reconciliation process we understand that the reconciliations should be reviewed by the Business Rates team leader. We were unable to verify that this was the case for 3 of the 5 reconciliations that we reviewed as part of our testing as it had not been evidenced. We were unable to state that there has been appropriate review and segregation of duty as part of the reconciliation process. There is a risk that this exposes the Authority to fraud and/or error. ***Recommendation*** The review process should be consistently formally documented. This allows the Authority to demonstrate review and reduces the risk of fraud and/or error.	The recommendation was accepted and the service has implemented revised processes/procedures. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 June 2019
5	2	***User access reviews were not carried out in the audit period for in-scope systems*** ***Risk*** There was no formal review of access rights for the Agresso or Northgate systems in the audit period. Therefore individuals may have inappropriate system access. There is no formal user access review process for the RAM/ Academy system. This is because there are a small number of users who are all known to the system owner. ***Recommendation*** The Authority should ensure that there is a formal process in place for reviewing system access and removing individuals from the system accordingly. In addition formal reviews of access rights should occur on a regular and timely basis. Also the revocation of access rights should occur in a timely manner when an individual leaves the organisation.	Recommendation was accepted and raised through the LGSS contract monitoring meetings. LGSS system controllers have taken appropriate action and LGSS Internal Audit are required to provide assurance on compliance. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 June 2019
6	2	***Agresso password length is not assigned as per the password policy*** ***Risk*** The IT code of practice policy documents the password policy. We noticed that the standardised password parameters are: – Use passwords with a minimum length of 9 characters. – Change passwords at regular intervals of no more than 55 days, or as the application requires. – Last 24 passwords remembered. – Complexity should be enabled. Our testing found that the system parameters were appropriately applied for Northgate, Academy and AD. The password parameters for Agresso and RAM were set at a minimum of 8 characters instead of the minimum of 9 required. ***Recommendation*** The Authority should ensure consistency and full compliance across systems in the implementation of the password policy.	Recommendation was accepted and raised through the LGSS contract monitoring meetings. LGSS system controllers have taken appropriate action and LGSS Internal Audit are required to provide assurance on compliance ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 April 2019

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Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

Number of recommendations that were	
Included in the original 2016/17 ISA260 report	**11**
Implemented in year or superseded	7
Outstanding at the time of our 2017/18 audit	4

Each of the issues and recommendations were given a priority rating, as outlined below.

Priority Rating for Recommendations					
1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: **5**	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: **4**	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: **2**

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Follow-up of prior year recommendations cont.

High Priority

1. Review of bank reconciliations

We reviewed the Authority's year-end bank reconciliation. There are unreconciled balances that the Authority has been unable to address. Some of these balances were over a month old.

A number of the unreconciled items within the Authority's Benefits bank account relate to direct debit payments set up by third parties using the Authority's bank details. The Authority provides its Benefits bank details on payment forms to allow individuals to deposit payments directly into the Authority's bank account. The Authority's banker had honoured those direct debits. These were reimbursed by the bank subsequent to queries by Officers.

We also identified that a number of unreconciled items were incorrectly dated, for example, an item which appeared to be a reconciling item from January 2016 was in fact a reconciling item from November 2016. Officers have stated that the system records an incorrect date when the reconciling item appears between the first and twelfth day of each month.

Based on the issues identified above, we were unable to place reliance on the Authority's bank reconciliations.

Recommendation

The Authority should issue instructions to its banker not to honour direct debit payments out of its Benefits bank account.

The Authority should investigate and resolve all outstanding unreconciled items within the month in which it occurs. The Authority should also establish a system of reconciliation which supports monthly reconciliations on a timely basis and provides the correct date for each item.

Update as at July 2018

Superseded

During the 2017/18 audit, we identified issues in the bank reconciliation process. See recommendation 1 in Appendix One.

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Follow-up of prior year recommendations cont.

High Priority

2. Valuation of Property, Plant and Equipment (PPE), including Council Dwellings

We faced significant difficulty in our work on the Authority's PPE. In the prior year, we raised a recommendation on the valuation of Council Dwellings. Our work this year has found issues more broadly in relation to PPE.

In the current year, the Authority has used three separate valuers for the valuation of its PPE (including Council Dwellings) and investment properties:

- Land and buildings: internal valuers and Underwoods. Underwoods were engaged by the Authority due to capacity constraints within the Estates team.
- Council Dwellings: Underwoods, and subsequently Bruton Knowles
- Investment properties: Underwoods

Formal instructions to external valuers

We identified that no formal valuation instructions were sent to the external valuers, Underwoods and Bruton Knowles.

Type of asset	Valuer	Assessment of instructions
– Land and buildings (non-HRA) – Investment properties	Underwoods, date instructed not available	No formal written records or instructions were sent to Underwoods. As a result, we were not able to confirm that Underwoods had complied with the valuation request, which would have included list of assets to be valued. We had to undertake additional work to reconcile the list of assets reviewed against the valuer's output. We were also not able to confirm that the Authority has instructed its external valuer in line with the requirements of the Code and other applicable valuation and accounting standards. We engaged our KPMG specialist to perform additional substantive work to provide assurance that the valuations were in line with applicable standards.
– Council Dwellings	Underwoods, instructed February 2017 Bruton Knowles, instructed April 2017	Two in-year valuation exercises were requested the first by Underwoods in February 2017, and the second by Bruton Knowles in April 2017. For the valuation exercise, the Authority asked its valuer to utilise "alternative beacons where necessary", without considering the impact of this request. As a result, we were unable to initially agree inputs in relation to Council Dwellings. Further work was required to provide us with this assurance.

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Follow-up of prior year recommendations cont.

High Priority

Valuation Reports

The Authority did not request a full valuation report from Underwoods. This is not in line with Code requirements. In response to our inquiries, a second valuation was undertaken for Council Dwellings in April 2017 by Bruton Knowles, for which we have received a valuation report on 23 June 2017.

We received the valuation report for 'other land and buildings' and investment properties on 4 August 2017 which was undertaken by Underwoods. The late receipts of these reports delayed our assessment of the valuation results.

Valuation review and challenge

For Council Dwellings, we noted that there was an initial review by the Authority on the results of the valuation exercise undertaken by Underwoods. This review by the Authority was undertaken with incomplete information as no valuation report was prepared by the valuer. This had not been requested by the Authority.

Bruton Knowles subsequently took on the valuation review of Council Dwellings and provided both the valuation results and a valuation report. The Authority had performed a review of the valuation results. However we note that:

- the Authority was not aware that the valuer had used the social housing discount factor (EUV-SH) for the South East instead of East Midlands. This is evident during our initial discussions with the Authority;
- the Authority was also not aware that the social housing discount factor had changed. This is evidenced by the initial draft of the accounts, where the old EUV-SH of 34% was stated;
- the Authority had not considered the impact of instructing the valuer to use "alternative beacons where necessary"; and
- the valuation was performed on a desktop basis. We understand that this was requested verbally by the Authority, and this methodology was chosen due to time pressure. This methodology is a departure from Code requirements and the Authority's accounting policies. This departure was not disclosed within the Authority's accounts, nor assessed for compliance with Code requirements. Upon our initial feedback to the Authority on this matter, Officers made the decision to ask for a full valuation exercise. This was carried out on 16 September 2017 on the same 20% of beacons. We are still evaluating the results of this new exercise.

For 'other land and buildings', our valuation specialist was unable to obtain assurance over key inputs used for the valuation process due to the high turnover within the Estates team. Work on this is still ongoing.

Overall assessment

We note that there is no overall strategic ownership and compliance review by an appropriately-experienced individual at the Authority. The valuation process in the current year appears to be on an *ad hoc* basis, with no written process notes or standard valuation procedure. This is particularly important given the high turnover within the Estates team during the past two years. We note that there has been limited consideration of how the valuation exercise aligns with requirements of the Code or audit requirements, in particular:

- the requirement for a valuer's report;
- the formalisation of valuer's instructions, including a list of assets to be valued;
- consideration of an audit trail in relation to assets to be valued;
- an assessment of the impact of 'alternative' beacons, where identified;
- the requirement for a full valuation instead of a desktop valuation for assets valued within the 5-year cycle;
- an assessment of the valuer's assumptions, in particular the justification for a social housing discount factor outside of the DCLG's guidance; and
- the timeframe and output to allow early review and assessment in light of the early closedown period in 2017/18.

The reactive nature of this year's valuation process has resulted in significant delays and non-compliance with Code requirements.

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Follow-up of prior year recommendations cont.

High Priority

Recommendation

The Authority should formulate a formal policy and process for valuation, including establishing an overall strategy and position responsible for oversight over the valuation process. The individual(s) responsible should be suitably-qualified or experienced. They should be able to assess compliance of the valuation process and results against Code requirements as well as other applicable valuation and accounting requirements. This includes awareness of valuation requirements that are specific to the local government sector, for example, the DCLG's *Stock Valuation for Resource Accounting (SVRA).*

The valuation process should align to the Authority's closedown timetable, including a consideration of deliverables ahead of the year-end period. The process should be co-ordinated across the various valuers used (whether internal or external). The individual(s) responsible should oversee the transaction of valuation outputs into the Authority's fixed asset register, and subsequently oversee the production of good-quality working papers which contain clear audit trails (see recommendation 3 for further commentary on working papers).

Written instructions should always be issued to the Authority's valuers, whether internal or external. The instructions should require the valuers to comply with the Code and other requirements, specifically, the *Red Book* (*RICS Valuation –Professional Standards UK January 2014, revised April 2015*) for all valuations prior to 1 July 2017, and the *RICS Valuation –Global Standards July 2017* for all valuations going forwards. Valuation instructions should be agreed in advance with the valuer, with any departure from standard practice and requirements highlighted in both the instructions and the valuation report. The instructions should also reflect any variations agreed verbally between the Authority and the valuers.

There should be a clear record of all assets, including the date of last valuation and the valuer responsible. Instructions sent to the valuer should be accompanied by a list of assets due to be valued in a particular year; this list should be readily reconcilable to the Authority's master records.

The process should also include a formal review of valuation results, including any assumptions made by the valuer. The valuer should be instructed to present key valuation considerations and supporting evidence to enhance credibility and transparency to the values reported. Where necessary, the results and/or assumptions should be challenged, including the use of any alternative social housing discount factor. This challenge should be recorded and an audit trail maintained to ensure availability of records.

The Authority should require a valuation report to be produced to accompany the numerical valuation outputs, in line with the *Red Book* (*RICS Valuation –Professional Standards UK January 2014, revised April 2015*) for all valuations prior to 1 July 2017, and the *RICS Valuation –Global Standards July 2017* for all valuations going forwards. Special consideration needs to be given to valuation of Council Dwellings and the reporting requirements contained within the DCLG's *SVRA*.

Clear rationale over inputs and records (for example, comparable market data) should be recorded by the Authority's internal valuers, given the high turnover within the Estates team. This will help mitigate the difficulty experienced in the current year over obtaining assurance over the valuation inputs.

Update as at July 2018

Implemented

For the 2017/18 valuations, the Authority sent formal instructions to both Bruton Knowles for their review of Council Dwellings and to GVA for their review of other assets.

The assets were valued as at 31 December 2017.

No significant issues were highlighted through our review of valuations however one audit adjustment has been identified. See Appendix Three.

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Follow-up of prior year recommendations cont.

High Priority

3. Preparation and review of audit working papers

We stated in our *External Audit 2016/17 Interim Report* dated April 2017 that the Authority had implemented our recommendation in relation to the preparation and review of audit working papers. Whilst we acknowledge that the Authority has made efforts to improve working papers (including the use of KPMG Central), we subsequently identified significant issues during our final audit in July 2017.

The audit team undertook an audit debrief and workshop in October 2016 to analyse key issues which we found with the prior year's working papers. We also worked with the Authority in the preparation of our draft *Accounts Audit Protocol*(PBC requirements) in December 2016, and based on our discussions with Officers, issued the final PBC requirements in January 2017. We followed this up with a meeting with the Closedown team to discuss specific requirements of the document request list in March 2016. We have also offered further support and opportunities to discuss specific requirements of audit requests.

Nonetheless we found quality issues on the Authority's working papers, which are similar to the issues which we identified last year. These are:

- Many working papers were not checked against the requirements listed in the Accounts Audit Protocol. Despite being signed off, we found gaps in the provision of information; and
- Breakdowns provided within working papers did not tie to the draft accounts. This demonstrates a lack of audit trail, which adds to the difficulty in understanding the Authority's working papers.

Key audit areas of concern are:

- Fixed assets: The Authority had not provided key outputs from valuers ahead of the audit as previously agreed. We did not receive any working papers on valuation which led to difficulty in agreeing valuers' reports to the accounts. In addition, Authority had significant difficulty and delayed providing us with a breakdown of additions and disposals of Council Dwelling components. We also had difficulty in understanding the Authority's workings in relation to componentisation;
- Payroll: There was no audit trail and we had to spend a significant amount of time with Officers to understand the working papers; and
- Debtors and creditors: Not all breakdowns were provided; this did not meet our PBC requirements which had been agreed with Officers. In addition, where breakdowns were provided, these did not always agree to the accounts or to the Authority's general ledger.

We note that some of the working papers with issues were prepared by individuals outside the Authority's Closedown team, but nevertheless should have been subject to senior management review prior to submission to the audit team.

There were numerous emails provided, both as part of the initial PBC but also subsequently throughout the audit (particularly in relation to PPE). We found working papers (in particular in relation to fixed assets) that consisted predominantly of embedded emails and documents. This led to significantly more work as information was dispersed within multiple emails and working papers.

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Follow-up of prior year recommendations cont.

High Priority

Recommendation

All working papers should be provided by an agreed date, typically prior to the start of an on-site audit visit.

The Authority should ensure that all key closedown staff receive and review the agreed *Accounts Audit Protocol* prior to producing working papers for the audit. The review should be robust and reviewers should conduct an independent assessment of the working papers to ensure that the working papers can be understood by a third party.

Where breakdowns of balances are required by the *Accounts Audit Protocol*, these should be provided. The sum of the breakdown should agree to the audited balance, per the figures in the accounts submitted for audit.

Information should be contained and set out clearly within working papers, as much as possible, without the need for the audit team to review multiple emails or embedded documents to understand the evidence. Where there is a need to support the evidence via emails, these can be referred to as supplementary documents, but these should not form the bulk of the working paper.

The overarching principle is that working papers should provide a clear and concise audit trail from the financial statements through to sufficient and appropriate evidence within supporting working papers. Working papers need to:

– be clear, with explanations if needed. The working papers need to be written from the view point of someone external to the organisation;
– be supported by strong evidence, for example, third party documentation; and
– agree to the financial statements provided for audit.

Update as at July 2018

Outstanding

Although improvements were made on 2016/17, KPMG still felt that significant further improvements could be made to working papers that were provided for audit.

A high number of working papers did not agree to the notes. This led to additional questions and delays to the audit visit.

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Follow-up of prior year recommendations cont.

High Priority

4. Fundamental review of financial reporting and accounts production process

The *Accounts and Audit Regulations 2015* introduced a statutory requirement to publish the accounts with an audit opinion by 31 July. This requirement comes into effect in the financial year ending 31 March 2018. The Authority is aware of this and we have sought early engagement with the Authority this year, in line with guidance from the National Audit Office (NAO) in AGN 06.

In light of this, we have agreed a staged approach for 2016/17, with key audit areas to be reviewed during our interim audit visit beginning 6 March 2017. We reported in our *External Audit 2016/17 Interim Report* (dated April 2017) that we were not able to do this due to delays. These were primarily in relation to:

– fixed assets valuation reports; and

– the restated CIES and EFA.

During our final audit visit in July 2017, we noted not all working papers had been provided, most significantly for fixed assets. We also noted various issues with the quality and availability of audit evidence (see recommendation 3).

We understand the departure of valuers within the Estates team as well as a key member of the Closedown team contributed to the delays and issues noted.

We also noted issues in relation to the quality and completeness of the draft accounts provided for audit:

– the note to the EFA was missing; and

– the Cash Flow Statement was wrong. It contained figures which we did not recognise nor were we able to tie these back to the accounts. Upon query, we were advised that this was the result of time pressures. A version of the new Cash Flow Statement was provided for audit by the Closedown team to ensure the accounts were complete, despite being wrong. This doubled our audit work as we had to audit the statement twice.

Significant audit work continued from September 2017 until December 2018, finalising key areas, in particular, fixed assets. The audit work this year has been beyond the initial three-week final audit period in July 2017, which was planned, agreed, and budgeted with the Authority. As reported, the delays have had a significant impact on the final audit fee. This is additional to the extra work required for it being a "high risk" audit.

Given the issues we have seen, both in the production of the accounts and the provision of audit working papers, the Authority was unable to meet the earlier statutory deadlines in 2017/18, and this audit has yet to commence at the date of this updated report. There is also a risk that the Authority is unable to meet the deadline to produce draft 2018/19 financial statements without significant changes to the current manner by which it produces its draft accounts, including changes to ensure that it produces good-quality working papers to support the accounts.

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Follow-up of prior year recommendations cont.

High Priority

Recommendation

There should be a strategic and fundamental re-evaluation of the Authority's approach to the production of its financial statements and audit working papers. The Authority should aim to be in a position where key financial transactions such as additions, disposals, accruals, recharges, etc., are posted to the ledger on a regular basis. The Authority has put in place a new Closedown team in 2016/17 to improve its accounts production and audit performance; this has not proven to be as effective as both sides had initially anticipated.

In line with best practice which we have seen elsewhere in the public and the private sector, the Authority should aim achieve financial closedown at the end of every month. The Authority currently achieves closedown once a year, which has the effect of accumulating financial transactions towards the financial year end. This places immense pressure on the Authority's Finance team and Closedown team to meet year-end deadlines. The Closedown team is effectively being asked to compress a year's worth of financial transactions and analysis into a relatively short period of time.

The achievement of an earlier closedown in 2018/19 cannot be achieved by maintaining *status quo*. Initially, the Authority should aim to implement quarterly financial closedowns as an interim measure until monthly closedowns can feasibly be achieved. This will involve the wider Finance team and a change in current processes. Budget holders and other key contributors (such as valuers) will also need to be part of this joint effort; this will be a significant change in the wider corporate culture.

Update as at July 2018

Outstanding

Similarly to recommendation 3 above , the review of the accounts submitted for audit could be improved – a number of errors were found in presentation that should have been picked up if a thorough senior management review of the accounts had been performed.

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Follow-up of prior year recommendations cont.

High Priority

5. Componentisation of Council Dwellings

The Authority changes the way it accounted for the components of Council Dwellings in the third quarter of 2015/16. The Authority has grouped individual components by type into one "global" component type, for example, kitchens, bathroom etc. We highlighted in our *External Report 2015/16* that this was a change that introduced a new element of estimation which was not disclosed within the Authority's accounting policies. We noted that this policy has also not been disclosed in this year's financial statements.

Calculation of the estimate

The Authority now estimates the amount of component disposals as a percentage of component additions. This percentage is based on historical data.

For example, if the Authority knows that on average it replaces a kitchen that was worth £2,000 with a new kitchen that is worth £10,000, the percentage calculated is 20%. Thus for every £10 it spends on kitchens, it derecognises £2.

Rationale for change

The Authority stated in 2015/16 that this change was designed to reduce the amount of manual inputs into the fixed asset register. The Authority was able to demonstrate that in 2015/16, the difference between the old and the new methodology was not material, however it anticipated this figure to be larger in 2016/17. We agreed with key Officers that for 2016/17, the Authority will need to demonstrate that the difference between the old and new methodology would not be material. However the Authority did not produce this analysis in the current year due to departure of a key member of the Closedown team.

Estimates, uncertainty, and complexity

This new methodology is an accounting estimate which introduces a particular margin of error. It is a move away from the purpose of componentisation, which was first introduces in IAS 16 and adopted by the code in 2010/11 in order to further refine asset values, that is to *further refine an existing estimate.* The Code states that estimates can be a faithful representation if the amount is described clearly and accurately as an estimate, the nature and limitations of the estimating process are explained, and no errors have been made by selecting and applying an appropriate process for developing the estimate. This has not been the case as no such disclosure exists.

The Code further states that 'as a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated'. We note that the use of this new estimate is not the result of inherent uncertainties, but a move to reduce processing of asset values.

Whilst the original methodology does to a certain extent involve estimates (for example, useful life of a component and the overall valuation of a building), these are established estimates and the estimation process of these values is governed by professional standards and carried out by qualified individuals. The new methodology introduces further uncertainties and decreases precision of the components' valuations. This new accounting estimate has ultimately increased uncertainty, adds complexity to the process, and significantly increases audit work.

Audit Impact

We faced difficulty in understanding the Authority's working papers in relation to estimates. Conversely, the Authority had difficulty in providing the audit team with a breakdown of component additions and disposals in year and caused additional work in obtaining necessary audit evidence. As at the time of writing, we have further outstanding queries in relation to the derecognition of components in quarter 4. In line with accounting requirements, we have asked the Authority to prove that this new estimate is based on the latest available, reliable information.

We note that there was an audit difference found in the prior year resulting from the application of this new componentisation estimate, which was not adjusted.

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Follow-up of prior year recommendations cont.

High Priority

Overall Assessment

Whilst we understand the rationale driving this change in the accounting for components of Council Dwellings, the Authority has faced difficulty in justifying the reduction of precision on the basis of materiality. The calculation is complex and has caused delays to what should have been a straightforward area of audit. The amalgamation of components has removed the audit trail as the Authority is unable to easily reconcile the disposal of a particular component to the breakdown of component disposals.

Recommendation

The Authority should account for its Council Dwellings components in line with IAS 16 and Code requirements going forwards. This will increase precision and provides a clear audit trail. It will also remove complexity from the process. The Authority should consider alternative methods in reducing the manual processing of asset values, for example, the use of automated scripts within its fixed asset register system.

However, should the Authority choose to continue using its new methodology of accounting for components of Council Dwellings, the Authority will need to be able to provide evidence that the estimates used are based on the latest available, reliable information. The Authority should disclose this change within its accounting policies, as well as explain the nature and limitations of the estimating process. In order to ensure that its estimates are current and based on the latest available, reliable information, the Authority will need to perform an annual assessment of this estimate. There should also be special consideration of the audit trail of additions and disposals, and the ease of which these can be evidenced to external auditors.

Update as at July 2018

Implemented

As per the 2017/18 accounting policies disclosed in the Statement of Accounts, component accounting has been applied to council dwellings.

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Follow-up of prior year recommendations cont.

Medium Priority

6. General IT controls –Passwords

We tested the Authority's general IT control environment this year and key IT applications, which are Agresso, Academy, Northgate, and RAM.

We noted that the Authority has documented a password policy as part of its information security policies:

- Use passwords with a minimum length of 8 characters.
- Change passwords at regular intervals of no more than 60 days, or as the application requires.
- Last 20 passwords remembered
- Complexity should be enabled

Our testing found that the password complexity option has not been enabled on Agresso and Academy. We also found that the minimum password length has not been enforced on RAM.

Recommendation

The Authority should enforce the password policy across all of the IT applications used by the Authority.

Update as at July 2018

Superseded

During the 2017/18 audit, whilst we identified improvements in the controls relating to passwords, there were still inconsistencies. Therefore the recommendation has been superseded. See recommendation 6 in Appendix One.

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Follow-up of prior year recommendations cont.

Medium Priority

7. NDR Reconciliations

We have identified differences between cash and the NDR system in relation to monies received by the Authority. Some of these differences date from June 2016, which has not been resolved at year end. We understand that these are still being investigated.

Recommendation

The Authority should continue to investigate reconciling items between cash received and its NDR system.

Update as at July 2018

Superseded

During the 2017/18 audit, whilst we identified improvements in the reconciliation, there was still no formal review documented. Therefore the recommendation has been superseded. See recommendation 4 in Appendix One.

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Follow-up of prior year recommendations cont.

Medium Priority

8. Payroll Reconciliations

The payroll function was transferred from LGSS to the Authority in January 2017. We were not able to review payroll reconciliations performed by LGSS from Period 1 to Period 9 as records were lost during the move.

For Period 10 to 12, we were able to review the payroll reconciliation performed by the Payroll Manager. We understand that this reconciliation was meant to be reviewed by a member of the Finance team; however we were unable to verify this as no evidence has been retained. We were unable to state that there has been appropriate review and segregation of duty as part of the payroll reconciliation. There is a risk that this exposes the Authority to fraud and/or error.

We understand that the Payroll Manager is updating the payroll processes at the moment and anticipates formalising this review process.

Recommendation

The review process should be formally documented. This allows the Authority to demonstrate review and reduces the risk of fraud and/or error. Where there are system changes, records of key controls will need to be retained for audit purposes going forwards.

Update as at July 2018

Implemented

All payroll reconciliations reviewed as part of the 2017/18 audit had been prepared and reviewed appropriately.

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Follow-up of prior year recommendations cont.

Low Priority

9. Review of actuarial assumptions

The Authority is a member of the Northamptonshire Pension Fund (LGPS) which is required to undergo a full valuation every three years. As part of the full valuation process in 2016/17, the Authority is required to submit information about its members, as well as review and challenge the actuarial assumptions. These are both financial and non-financial assumptions.

The Authority's Actuary stated in its February 2017 briefing note:

"We therefore strongly recommend that you consider the suitability of the default assumptions to your specific organisation."

Assumptions used will impact the balance sheet and the following years CIES.

The Authority was initially unable to demonstrate a review of the assumptions or demonstrate the acceptance of the default actuarial assumptions used as part of the valuation process. Upon our feedback, the Authority has subsequently produced emails which demonstrate review of actuarial assumptions.

Recommendation

The Authority should formally evidence the review of all assumptions used by the Actuary to ensure relevant to the organisation. Where appropriate, the Authority should challenge these assumptions.

Update as at July 2018

Outstanding

As part of our work in 2017/18 we found that assumptions were not reviewed. The above is therefore outstanding.

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Follow-up of prior year recommendations cont.

Low Priority

10. ITGC – RAM Leavers

A member of Finance left NBC in September 2018 however, it was noted that their RAM account had been used post their leaving date. It had been used by the RAM consultant who was required for the volume of work required to remove original incorrect Council Dwellings valuations and upload correct valuations as a result of audit adjustments.

Best practice would suggest that all leavers are removed from entity systems in a timely manner. There is a risk that the leavers' account if not closed, could be used for inappropriate amendments to the system - especially given the user rights of this particular user. As part of our testing we confirmed that all the amendments made by the RAM consultant were only the amendments to council dwellings valuations and not to system configuration therefore minimising this risk.

Recommendation

The Authority should ensure that it has a formal process in place for removing individuals from all systems they have access to on the date they leave the organisation. Where temporary access is needed by other individuals or organisations, separate and identifiable usernames should be provided to them for audit purposes.

Update as at July 2018

Superseded

As at March 2019, it was confirmed that there were no changes to the RAM leavers process. Therefore, there is no formalised process for revoking user access from the RAM application. Users are disabled based on personal recognition of the control owner who is usually aware of staff exits.

See recommendation 5 in Appendix One.

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Follow-up of prior year recommendations cont.

Medium Priority

11. ITGC – RAM Update

Key financial systems should be kept updated. One of the issues that caused delays to the audit was a result of an outdated version of the Real Asset Management (RAM) system which holds fixed asset information. The outdated version resulted in a lack of support from third parties. A RAM consultant was required to come in and remove data from RAM to update it to the correct balances. This was a large piece of work and not would have been required if RAM was operating on a more recent version. We suggest that the RAM system is looked into for the 2017/18 accounts preparation onwards and the system updated.

Recommendation

The Authority should ensure that all of its key systems, accounting and otherwise, are kept up-to-date with relevant patches and software releases as and when required. This will ensure that the latest version is serviceable, provides the most up-to-date functionality and mitigates against issues which may lead to a loss of data or the system being unable to operate as intended.

Update as at July 2018

Outstanding

RAM was not updated for the 2017/18 audit.

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Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017/18 draft financial statements. The Closedown Team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2018.

Table 1: Adjusted audit differences – Authority (£'m)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	*Dr depreciation* 0.1 *Dr revaluation gains* 0.5	*Dr revaluation reserve* 1 *Dr capital adjustment account* 0.7 *Cr general fund* (0.7)	*Cr OLB* 1.7		*Dr revaluation reserve* 1 *Dr capital adjustment account* 0.7 *Cr general fund* (0.7)	Incorrect floor area used for valuation of Northgate bus station. Updated floor area resulted in the provision of a new valuation. This investigation resulted in other errors found in the asset management system.
2	*Dr Cost of Services* 5.7 *Dr Other Operating Expenditure* 2.2 *Cr finance and investment income* (7.9)					Management fee paid to NPH was included in finance and investment income incorrectly and some assets which were reclassified in 2016/17 were not included in the investment property fair value movements.
3		*Cr revaluation reserve* (0.1)	*Dr OLB* 0.1		*Cr revaluation reserve* (0.1)	Royal and Derngate Theatre Cinepod 2nd screen had not been updated to reflect the value in the valuer report
	Dr £0.6m	**Dr £0.9m**	**Cr £1.6m**	**-**	**Dr £0.9m**	**Total impact of adjustments**

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Audit differences

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £0.9m. Cumulatively, the impact of these uncorrected audit differences is £0.1m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences – Authority (£m)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1		*Dr Revaluation Reserve* 0.1	*Cr OLB* 0.1		*Dr Revaluation Reserve* 0.1	Mayorhold Multi Story Car Park Buildings are overstated in the fixed asset register – the valuer in the asset register does not agree to the valuer report.
		Dr £0.1m	**Cr £0.1m**		**Dr £0.1m**	**Total impact of adjustments**

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Audit differences (cont.)

Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code').

Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table.

There were a number of casting and inconsistency errors also identified within each set of draft accounts; the majority of these casting errors were amended for the final accounts with those relating to rounding if less than £2,000 ignored.

Table 5: Presentational adjustments – Authority

No.	Basis of audit difference
1	The Cash Flow Statement submitted for audit did not agree to the supporting workpapers and has since been amended. As a result notes 10 and 32-35 had to be amended.
2	A £30,000 exit package had not been disclosed in the Officers' Remuneration note (Note 20).
3	The External Audit Costs note was incorrect and had to be amended.
4	A loan made to Cosworth was not disclosed within the Debtors note (Note 9).

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Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit. Our *External Audit Plan 2017/18* reported a materiality of £1.3m for the Authority against a benchmark of £260.8m. The published Authority accounts had Gross Expenditure of £195.8m.

Materiality was reported at 0.5% of Gross Expenditure resulting in an updated materiality of £0.975m (£1.4m previously reported) for the Authority financial statements as a whole for 2017/18.

All misstatements above £45,000 will be reported to Audit Committee. All individual differences below this threshold will be considered trivial.

Materiality of the Group Accounts remains at £1.4m.

Materiality for the Authority's accounts was set at £0.975 million which equates to around 0.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £45,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

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Appendix Five:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified three adjusted audit differences. See page 57 for details.
Unadjusted audit differences	The net impact of unadjusted audit differences on the deficit on provision of services would be £0.1m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix Three for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including one significant deficiency identified, in Section one of this report (see pages 5 to 6).
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

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Appendix Five:

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix Six for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 16.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit were discussed, or subject to correspondence, with management.

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Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NORTHAMPTON BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

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Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have detailed the fees charged by us to the Authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix Seven, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed in Appendix Seven on page 65.

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 1:10. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

We confirm that all non-audit services were approved by the audit committee or equivalent.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the below table.

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Audit-related assurance services				
Grant Certification – Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed daily rate	4,500	-
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	18,182	-

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

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Appendix Six:

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the audit committee or equivalent.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

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Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £80,775 plus VAT (£80,775 in 2016/17), which is consistent with the prior year.

However, we propose an additional fee of £120,000 due to the high risk nature of the audit and the significant delays incurred (£196,466 in 2016/17). We have discussed and agreed this with the S151 Officer. This is still subject to PSAA's final determination.

Our work on the certification of the Authority's Housing Benefit Subsidy return is completed. The planned scale fee for this is £10,976 plus VAT (£18,972 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £4,500 plus VAT (£4,674 in 2016/17), see further details below.

Component of the audit	2017/18 Planned Fee £	*2016/17 Actual Fee £*
Accounts opinion and value for money work		
PSAA Scale fee	80,775	*80,775*
Additional fee in relation to Code changes	-	*4,813*
Additional fee in relation to fee variations	120,000 TBC*	*196,466*
Additional fee in relation to elector work - NTFC	TBC**	*54,972*
Additional fee in relation to elector work – Council Tax	17,208	*4,700*
Total audit services	**217,983**	***341,726***
Mandatory assurance services		
Housing Benefits Certification (work completed in Nov 18 and additional costs incurred due to errors)	18,182	*18,972*
Total mandatory assurance services	**18,182**	***18,972***
Audit-related assurance services		
Pooling of Housing Capital Receipts (work completed in January 2019)	4,500	*4,674*
Total audit-related assurance services	**4,500**	***4,674***
Total non-audit services	**22,682**	***23,646***
Grand total fees for the Authority	**240,665**	***365,372***

All fees quoted are exclusive of VAT.

** Subject to approval by the PSAA.*

*** Additional fee in respect of this on-going work (with reference to the objection regarding the c£10m loan made by the authority to Northampton Town Football Club) which has not been charged during 2017/18, but will be submitted on completion, subject to approval by the PSAA, and billed in a future period. The expected additional fee is currently estimated to be c£50k.*

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