External Audit Report 2015/16

Northampton Borough Council

—

September 2016

KPMG

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Contents

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to **andrew.sayers@kpmg.co.uk**). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing **generalenquiries@psaa.co.uk**, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Northampton Borough Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Letter 2015/16* issued in May 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

It also includes any additional findings in respect of our control evaluation which we have identified since we issued our *Interim Audit Letter 2015/16.*

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

Work on key areas of the accounts are still being finalised, particularly in respect to fixed assets and loans.

VFM Conclusion

Our *External Audit Plan 2015/16* explained our risk-based approach to VFM work. Work to support our 2015/16 VFM conclusion is substantially complete, however, our review of the Northampton Town Football Club (NTFC) loan is still ongoing. Our work has also included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in [Appendix 1]. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has not identified material adjustments to date. A final list of adjustments will be presented to the Audit Committee upon the completion of our audit. We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix one.
Key financial statements audit risks	We identified the following key financial statements audit risks in our *2015/16 External Audit Plan* issued in March 2016. — **Change in NNDR system** The Authority made a decision transfer the service back from the Borough Council of Wellingborough from April 2016, maintain use of the same system. For 2015/16 we have carried out our review of the IT systems and have found no issues in relation to Northgate, which is the IT system used to administer NNDR — **Loans system** We have substantially completed work on two of the four other loans which the Authority has issued due to delays in the information requested. Whilst we are satisfied that the risk of material misstatement with regards to the values disclosed within the financial statements is low, our initial findings indicate that there is an insufficiently systematic, robust, and objective due diligence process, and a framework within which decisions can be made or documented We have worked with Officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report, with our related recommendations in Appendix one.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. During the audit, we found issues in relation to the working papers, both in relation to the delay in provision of some key working papers previously requested, and also the quality of evidence provided to support the financial statements, specifically in relation to fixed assets. There is an opportunity for improvements to be made in providing clear and concise audit trail of underlying transactions. This has caused significant delays and planed additional pressures on the audit. In particular: — Working papers provided were incomplete or were not intended for external audit. For example, there are working papers which do not tie to figures disclosed in the draft financial statements; — Working papers provided were not in line with the requirements of our Prepared by Client (PBC) listing which was shared with the Authority in January 2016. No checks were carried out to ensure that our requests were fulfilled. Whilst onsite in July 2016, we requested that Officers carry out a reconciliation between our PBC listing and the documents provided, however we note that there are still gaps in the documentation provided; and — A number of queries were not dealt with on time, in particular, information on loans which was requested in February 2016, and information to support the valuation of council dwellings. Our related recommendations can be found in Appendix one. We also report that the Authority has not yet fully implemented two prior year recommendations from our *ISA 260 Report 2014/15*. As in previous years, we will debrief with the Finance team to share views on the final accounts audit. In particular we would like to thank Officers who were available throughout the audit visit to answer our queries.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM conclusion and risk areas	We identified the following VFM risks in our *External Audit Plan 2015/16*. — **Northampton Town Football Club loan** 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. This work will also address the issues contained within the objection received on the financial statements in relation to the NTFC loan. Based on the work undertaken to date in respect of our value for money opinion, due to the circumstances surrounding the loan and the ultimate loss of £10.25 million of taxpayers' money by the Authority (impaired in the 2015/16 financial statements), we are currently not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to loans is adequate. — **Financial resilience** The Authority reported an overall breakeven position on its net expenditure budget for 2015/16 after the net contribution of £1.845 million from reserves. This enabled the general fund balance to remain at £5.47 million as of 31 March 2016. The Authority's Medium Term Financial Plan details a balanced budget for 2016/17 including savings of £665k in year, all of which have been identified. The MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings, up to £7.3 million by 2020/21. We have worked with Officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. 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. We therefore anticipate issuing a qualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of our work in respect of fixed assets, the business rates appeals provision, and loans issued to external organisations. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We will ask management to provide specific representations in relation to the valuation of fixed assets and loans issued to external organisations. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We have so far not identified any issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September 2016.

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 two for more information on materiality) level for this year's audit was set at £2.7 million. Audit differences below £135,000 are not considered significant.

Pending completion of our work on fixed assets, loans and provisions for the Authority's business rates (NNDR), our audit has not identified any significant audit adjustments to date. We have however identified a number of non-significant adjustments. It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a 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 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE, with the exception of the Authority's conclusion as a result of its review of the effectiveness of the governance framework. The Authority has agreed to amend this to reflect the Framework; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's narrative report and have noted a number of inconsistencies with the financial information contained in the audited financial statements.

- Figures disclosed in the narrative report do not reflect those in the financial statements; and
- The narrative report does not comply with the forward-looking aspect of the reporting guidelines; and

We have reported these to the Authority, and have recommended that further revision is made to ensure that the narrative report is in line with the Code and best practice as set out by the Accounting Standards Board.

We understand that the key performance indicators were not available for inclusion in the draft and will be updated in the final version of the report.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have substantially completed our testing of these areas and set out our evaluation following our substantive work.

We have set out below our detailed findings for each of the risks that are specific to the Authority.

Change in NNDR system

— The Authority proposed to return the business operation of the NNDR system to Northampton Borough Council from the previous consortium arrangement with the Borough Council of Wellingborough. This was planned to involve the migration of the NNDR database to the Authority and include the re-design of system processes and protocols to ensure that the controls within the system are fit for purpose. The new arrangement was envisaged to be operational from March 2016.

— The Authority made a decision transfer the service back from the Borough Council of Wellingborough from April 2016, maintain use of the same system. For 2015/16 we have carried out our review of the IT systems and have found no issues in relation to Northgate, which is the IT system used to administer NNDR.

— Additionally, we carried out testing of controls performed in relation to the NNDR system. Our work on controls has identified control deficiencies. See recommendations in Appendix one.

Loans system

— The Authority has a number of material loans with organisations. The recent issue identified in respect of the Northampton Town Football Club (NTFC) has highlighted the loans system as a risk area which therefore requires audit focus in 2015/16.

— Work on the NTFC loan review is still on-going and will be reported once our review is complete.

— We have asked the Authority to disclose further detail regarding these loans within the body of the financial statements. No issues have been raised relating to the accounting treatment for the outstanding balances, payments in year and interest received.

— The Authority has made four loans (excluding the NTFC loan) to public organisations and private companies. The Authority has only deemed the loan to Northampton Rugby Club to be a soft loan due to being below market rates: We are awaiting further information from the Authority to finalise our work in this area.

- Unity Leisure Limited (also known as Northampton Leisure Trust), £0.3 million
- Cosworth Limited (a subsidiary of Cosworth Group Holdings Limited), £1.4 million
- Northampton Rugby Football Club Limited (a subsidiary of Northampton Saints plc), £5.5 million
- University of Northampton, £46 million

— We have substantially completed work on two of the four other loans which the Authority has issued due to delays in the information requested. Whilst we are satisfied that the risk of material misstatement with regards to the values disclosed within the financial statements is low, our initial findings indicate that there is an insufficiently systematic, robust, and objective due diligence process, and a framework within which decisions can be made or documented. We have raised a recommendation in relation to this, see recommendation 1.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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Fraud risk of 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 2015/16 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.

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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.

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

Our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud were identified.

Other areas of focus

In our External Audit Plan 2015/16, we identified two areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing for Payroll and finalising our results for Fixed Assets. This page sets out our detailed findings for each of such areas of audit focus.

Payroll

— The Authority have been made aware of some discrepancies reported within the payroll system in 2015/16. Management had indicated that the Authority's Internal Audit function was reviewing the issue identified as part of its testing on the payroll system. As payroll is a material balance in the financial statements and a sensitive area, we considered this to be an audit risk.

— As reported in our Progress Report in July 2016, we were subsequently informed that a review by Internal Audit had not taken place. Instead, an internal management review of payroll had been undertaken. Following discussions with Management, further work by Internal Audit was subsequently undertaken to provide us with the assurance we needed in relation to payroll issues identified by Management.

— There was an increase in complaints from the Authority's employees in relation to payroll. Internal audit had identified that the majority are not 'valid' complaints and arose as a result of the implementation of the new contact centre for payroll. The only substantial issue identified by Internal Audit relate to the erroneous cut off date for travel claims which drove 53% of complaints received. This was resolved by the use of emergency payments and has not re-occurred.

— Our own work on the payroll reconciliation had identified that the payroll reconciliation was not operating effectively in year due to unidentified balances which are immaterial being brought forward from prior accounting periods. We recognise that the Council is making progress on improving the reconciliation and clearing these unidentified balances.

— Further substantive work was carried out by KPMG to gain assurance over payroll in light of issues identified. We used data & analytical procedures and were able to test 100% of your employees in year. Our findings showed that overall, there are no major concerns over payroll. However, the analysis has revealed data quality issues on a number of employees. Detailed findings have been shared with Officers, who are investigating issues raised.

IFRS 13 Valuation of surplus assets

— The Authority holds approximately £326,000 of assets classed as being surplus to the Authority's requirements. In 2015/16, the Code requires authorities to value these in accordance with IFRS 13 *Fair Value Measurement*. This is a departure from the previous requirement, in which surplus assets are valued at existing use value (EUV). The adoption of IFRS 13 requires the Authority's valuers to consider the Fair Value Hierarchy.

— We do not consider there to be any material issues arising from this area of focus.

We have raised a recommendation relating to payroll in Appendix one.

Accounts production and audit process

We found issues in relation to the working papers, both in relation to the delay in provision of some key working papers previously requested, and also the quality of evidence provided to support the financial statements, specifically in relation to fixed assets.

Generally, Officers dealt efficiently with audit queries. However, there were instances where queries were not dealt with in a sufficiently prompt manner, resulting in delays.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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.

Element	Commentary
Accounting practices and financial reporting	The Authority has changed the way it accounts for components of council dwellings, which introduces an element of estimation. The impact is immaterial in the current financial year, but will be a material balance going forwards. This change was not been disclosed within the financial statements. We had originally planned to complete our work on loans prior to our onsite visit, but delays in the provision of information has meant this is still on-going. We consider that accounting practices are appropriate.
Complete-ness of draft accounts	We received a complete set of draft accounts on 30 June 2016. The Authority continues to work towards bringing deadlines and deliverables forward in light of plans to move the local government audit statutory deadline to 31 July in future years.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in January 2016 and discussed with the Strategic Finance Manager, sets out our working paper requirements for the audit. (continued)

Element	Commentary
Quality of supporting working papers *(continued)*	*(continued)* We offered to discuss the working paper requirements with key individuals should the need arises; our offer was not taken up by Officers. We found issues in relation to the working papers, both in relation to the delay in provision of some key working papers previously requested, and also the quality of evidence provided to support the financial statements, specifically in relation to fixed assets. There is an opportunity for improvements to be made in providing clear and concise audit trail of underlying transactions. This has caused significant delays and planed additional pressures on the audit.
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by Grant Thornton UK LLP on the financial statements of Northampton Partnership Homes. There are no specific matters to report pertaining to the group audit.

Additional findings in respect of the control environment for key financial systems

We reported in our Interim Audit Letter 2015/16 that we were yet to complete our testing of controls operated during the closedown process. We have raised recommendations where appropriate in Appendix two. We also report that the Authority has not yet fully implemented two prior year recommendations from our *ISA 260 Report 2014/15*.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 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 prepare our Annual Audit Letter and close 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 2016, 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 three 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. In due course, we will provide a template to the S151 Officer for presentation to the Audit Committee. We require a signed copy of your management representation letter 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;
- We have also received an objection to the Authority's accounts in relation to the Northampton Town Football Club. As a result, we cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention.

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Audit Fees

Our scale fee for the audit is £80,775 plus VAT (£80,775 in 2014/15). This fee is in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our scale fee for certification for the HBCOUNT is £10,579 plus VAT (total fee of £21,225 in 2014/15). Our basic fee for other grants and claims (Pooling of Housing Capital Receipts Return) is £3,000 plus VAT (£3,000 in 2014/15).

Section four: Value for Money

VFM Conclusion

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

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.

Background

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.'

The VFM approach is fundamentally unchanged from that adopted in 2014-2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

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.

Overall criterion: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

✘ NOT MET

Informed decision-making	Sustainable resource deployment	Working with partners and third parties
✘ NOT MET	✔ MET	✘ NOT MET

Specific VFM Risks

We have identified a number of specific VFM risks.

We are not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- Completed specific local risk based work.

Key findings

We set out the findings overleaf in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

We are 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.

Northampton Town Football Club Loan

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. Arrangements were made between NTFC and 1st Land Limited, a company established specifically for this purpose, which have resulted in a position whereby the work for which the Authority advanced the funds is only partially complete. The funds which were advanced to NTFC by the Authority as provided for by the Facility agreements. NTFC unilaterally passed these funds to 1st Land Limited. This latter company was placed in Administration after failing to pay its contractor, Buckingham Group Contracting Limited. The loan made to NTFC and the financial management concerns around it have been widely publicised.

We have been meeting with key Officers including the Chief Executive, Section 151 Officer, and Monitoring Officer, as well as internal audit and Committee members to discuss this issue, and reviewed Authority reports, minutes and other supporting documents regarding the loan as part of our on-going review.

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. This work will also address the issues contained within the objection received on the financial statements in relation to the NTFC loan. Based on the work undertaken to date in respect of our value for money opinion, due to the circumstances surrounding the loan and the ultimate loss of £10.25 million of taxpayers' money by the Authority (impaired in the 2015/16 financial statements), we are currently not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to loans is adequate.

We have also consider the general value for money risks of any other community loans made by the Authority. We have discussed the terms of these agreements with Officers and considered the processes and controls in place, as well as due diligence performed, in order to assess whether the Authority had proper arrangements in place to secure value for money prior to issuing these loans. As detailed in our financial statements findings, the Authority has another four material loans with other organisations including Unity Leisure Limited (*"Northampton Leisure Trust"*) (£0.3 million), Cosworth Limited (£1.4 million), Northampton Rugby Football Club Limited (£5.5 million), and the University of Northampton (£46 million). Due to delays in the provision of information relating to this additional work (requested in February 2016) our work in this area is on-going and we will provide an update at the Audit Committee. Our initial findings indicate that there is an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions can be made or documented.

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.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

We are 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.

Financial Resilience

The Government's Autumn Statement and Spending Review confirmed their intention to move to a different funding system over the next few years – with less reliance on Revenue Support Grant and an increasing dependence on business rate income as a major source of income. That, together with likely significant reductions in New Homes Bonus funding from 2017/18 means that the Authority, like most of local government, faces a challenging future.

The Authority has been modelling for significant reductions in Government funding in its budget forecasts, nevertheless it will need to ensure that it continues to deliver efficiencies and moves forward its policy for generating income through investments and commercial activities. It is against this backdrop that we will asses the arrangements the Authority has in place to maintain its strong record of meeting efficiency savings against a worsening national picture.

The Authority reported an overall breakeven position on its net expenditure budget for 2015/16 after the net contribution of £1.845 million from reserves. This enabled the general fund balance to remain at £5.47 million as of 31 March 2016.

There were overspends in year of £360k in the Corporate and LGSS directorate, and £257k in Housing and Wellbeing, offset by underspends including £742k in Regeneration, Enterprise and Planning, as well as £393k in Customers and Communities. The Authority also incurred £635k of non-budgeted expenditure in relation to planning appeals and Delapre Abbey, whilst capital expenditure charged to revenue accounted for £2,172 of overspend. A reduction in financing costs resulted in £622k of underspend.

The Authority utilised £4.464 million of earmarked reserves in the year to support expenditure, the most significant movements of which came from the General Revenue Grants reserve (£536k), and the Rates, Retention and Deficit Funding reserve (£4.332 million).

The Authority's Medium Term Financial Plan details a balanced budget for 2016/17 including savings of £665k in year, all of which have been identified. This includes contributions to reserves of £2.872 million. However, whilst in year savings have been identified, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings, up to £7.3 million by 2020/21.

The final local government finance settlement issued in February 2016 resulted in a decrease of £211k in central government funding through a reduction in Revenue Support Grant (£275k), Business Rates Baseline (£125k), and an increase in the New Homes Bonus (£165k) alongside a £24k transition grant. The Authority has reported that given that the central government methodology includes an assumption that Council Tax is increased as part of an authorities core funding, the medium term forecasts have been updated to include an assumed increase in the Band D Council Tax of £5 per year from 2017/18 onwards. This is the new limit announced in the final settlement above which a referendum would be triggered. No increase was enacted for 2016/17.

We are currently finalising our work with respect to the Authority's financial resilience and will provide an update to the Audit Committee.

Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Materiality and reporting of audit differences

Appendix 3: Independence and objectivity

Key issues and recommendations

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
❶	***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.	❷	***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.	❸	***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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❷	**General IT controls – leavers** We tested the Authority's general IT control environment this year. We carried out specific testing of key applications which are relied upon by the audit, including Agresso. For two applications, we found that staff who have left the organisation are still active on these applications: — IBS Housing: 14 former staff had active accounts; and — ICON: 12 former staff were on user list, of which five were disabled and seven still active users. **Recommendation** Timely leaver forms need to be completed and cascaded to the relevant departments, including to IT. User access to applications needs to be reviewed on a periodic basis. In addition, the departing employee's access rights should be revoked as part of the standard leaving procedures. This process should be co-ordinated between HR and IT.	**Accepted.** Management notes this recommendation and has taken the following action: IBS Housing System. The recommendation for timely leaver forms needing to be completed and cascaded to the relevant departments has now been implemented. *Responsible Officer: LGSS Business Systems Manager* *Timescale: Implemented* ICON System. The staff responsible for maintaining user access to the ICON system have incorporated a review and disablement of users who have left into their routine monthly processes linking with the HR and Payroll teams *Responsible Officer: LGSS Exchequer Team Leader* *Timescale: Implemented*

Appendix one

Key issues and recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	❶	**Controls and processes for issuing loans** There is no systematic formalised system of recording or documenting the due diligence process or results arising from the loan approval process. This includes the assessment of business cases, evidence to support key decisions made, any challenge put forward by the Authority to the loan applicant, and the Authority's internal review and approval process. The Authority had significant difficulty in obtaining the evidence required to substantiate this decision-making process. Our assessment of two loans is still ongoing due to the delayed provision of key documentation first requested in February 2016. There is evidence that the due diligence process is not sufficiently formal nor are there a consistent set of requirements. This includes the lack of assessments regarding historic trading performance, cash flow, working capital requirements, sensitivity analysis etc. The Authority's Treasury Management Strategy, states that *"The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party."* We note that the use of specialist advisors by the Authority varies across loans in relation to the scope and detail of work requested and undertaken. The accountability and decision-making process is not sufficiently robust. We note that whilst Cabinet delegates authority to the Chief Executive or other appropriate Officers, this has been done prior to finalising the due diligence process. **Recommendation** The Authority should put in place a systematic, robust, and objective process of assessing and documenting the due diligence procedures carried out on loan applicants. This process should be transparent and the due diligence process undertaken by qualified individuals. Any decision will need to be fully documented, including the reasoning and consideration of risks. The process should include a review by a senior officer and this should be evidenced. Decision papers to Cabinet need to be robust and objective in order to allow informed and balanced decision-making. Decisions need to be made by Cabinet upon completion of required due diligence process. Officers will need to seek subsequent approval if terms of the loan are substantially revised.	**Accepted.** Management accept that improvements should be made to the process for approving loans. It should be noted that NBC have implemented a number of improvements in more recent loans issued, in particular the £46m loan to the University of Northampton which was subject to an intense and closely scrutinised process by the Council and external bodies, including HM Treasury. NBC will conduct a thorough governance review, in relation to project governance, risk management and due diligence. This review will consider Cabinet decision-making and clearance processes . The review will draw on external and internal experts and will work closely with KPMG and PWC as appropriate, and the output from the review will include documented and robust processes and checklists for the approval of loans and decision-making processes. NBC using advice from KPMG have already introduced a summary checklist to ensure that all aspects of third party loans are appropriately considered and recorded prior to approval *Responsible Officers: Chief Finance Officer, and Monitoring Officer* *Timeline: 31 March 2017*

Key issues and recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	2	**Preparation and review of audit working papers** Our *Accounts Audit Protocol*, issued in January 2016 and discussed with the Strategic Finance Manager, sets out our working paper requirements for the audit. During our final accounts visit, a number of issues arose in relation to the quality of the working papers, including: — Many working papers were not checked against the requirements listed in the *Accounts Audit Protocol*, many had significant gaps in the information provided. In particular working papers relating to fixed assets and payroll caused delays to our audit process. Sign-off and review of these working papers were also performed by staff who were not aware of the requirements in the *Accounts Audit Protocol*. — The working papers for fixed assets do not show a clear audit trail, from the financial statements to an individual asset on the fixed asset register. The Authority faced difficulty in providing us with support for the year-end valuation increase (see recommendation four below). These issues have arisen despite the review and 'quality assurance' sign-offs on the front of each working paper. **Recommendation** The Authority should ensure that all key closedown staff receive and review the *Accounts Audit Protocol* prior to producing working papers for the audit. The overarching principle is 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; and — Be supported by strong evidence, for example, third party documentation.	**Accepted.** There were a number of changes to key staff involved in the delivery of the year end accounts, and in the onsite management of the external audit that unfortunately resulted in this situation. Management are fully supportive of a joint review between the authority and the external auditors to ensure a return to a high quality set of working papers ensuring a smoother audit in coming years. This will be particularly important moving forwards as further improvements are required to the process in order to meet increasingly reduced statutory deadlines for the closure of accounts. *Responsible Officer: Strategic Finance Manager* *Timescale: 30 November 2016*

Key issues and recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	2	**Revaluation of council dwellings** The Authority revalues approximately 20% of its council dwellings annually, using the beacon methodology. This is where similar council dwellings are grouped with one dwelling chosen to represent each group (the 'beacon'). The remaining 80% of beacons are uplifted using the average movement of the 20%. The *Stock Valuation for Resource Accounting* guidance suggests that where a rolling valuation is performed, the Authority should undertake a desk top review of the remainder, informed by the results of the revaluation, market research and comparing prices of similar transactions in year. The Authority was unable to provide evidence of the year-end valuation methodology until after our onsite visit had completed (22 days working days after request), causing significant delays to the completion of our work. Handwritten notes were then provided to us, but these did not provide a clear and concise audit trail detailing the methodology used, the assumptions made, nor how calculations had been applied. There was no evidence this working paper had been reviewed. Furthermore, whilst the Authority did take into account similar transactions in the year, it did not challenge the methodology used nor undertake any additional review such as looking at wider trends, indices and other information to inform the year end movement. The Authority did not perform its own assessment of the final valuation including challenge and confirmation of this in order to understand key movements for properties. For both the initial and year end valuations, the valuer did not provide all the documents required by Code guidance including a separate overarching valuation report covering matters such as the process used to arrive at the estimate of the remaining useful life of individual properties, the valuer's proposed strategy,, arrangements for implementing the rolling programme; and proposals for carrying out additional and ad hoc valuations. **Recommendation** The information requested, and provided by the valuer, should meet all the criteria within the Code and provide a clear and concise audit trail relating to the metholdogy and assumptions used in the valuation process. All evidence should be maintained and made available prior to the start of the audit. The Authority should ensure that it fully fulfils its responsibility to review, challenge and understand the information provided by the valuers as required by guidance.	**Accepted.** There was a change in key staff within the Asset Management Team prior to the start of the audit. This combined with changes to finance staff meant that the process was not as smooth as in previous years. Management recognise there is a need for a better documented internal review process within Asset Management, and between Asset Management and Finance. Officers will be working jointly to thoroughly document processes for future years. *Responsible Officers: Head of Asset Management, and Strategic Finance Manager* *Timescale: 31 December 2016*

Key issues and recommendations

<table>
<tr><th>No.</th><th>Risk</th><th>Issue and recommendation</th><th>Management response/responsible officer/due date</th></tr>
<tr><td>5</td><td>2</td><td>Reconciliations
During the course of our audit we reviewed a number of reconciliations performed by the Authority between key systems. These are important controls which provide assurance that due process is being followed and that values reflected in the financial statements are calculated on an appropriate basis. We noted a number of issues including:
— Our testing of the March 2016 payroll reconciliation showed a total of 99 unreconciled items with a net value of £46,000 (gross £95,000). We also noted historical brought-forward balances which have yet to be identified by payroll.
— The Authority reconciles weekly Valuation Office (VO) reports to Northgate. The Authority does not reconcile the number of hereditaments (properties which are subject to business rates) to the NNDR system. There remains a small unreconciled difference in property numbers each week.
— The Authority reconciles the annual housing benefits expenditure to Agresso at the end of the year. We identified that the Authority had used the 2014/15 figure instead of 2015/16 figure for the reconciliation, resulting in an unreconciled difference of £15,300, instead of the original £997. This was not identified despite having been reviewed and signed off as “quality assured” by Officers.
Recommendation
The Authority needs to ensure that quality checks are undertaken on all key controls. This should be embedded within the reconciliation process.
The Authority should ensure all the issues above are dealt with and that full reconciliations are carried out across all appropriate systems and balances. All unreconciled balances should be identified and cleared, or written-off in a timely manner.</td><td>Accepted.
Payroll reconciliation – Management accept there is a need to strengthen the reconciliation process. Reconciliation items must be identified and cleared within a timely period.
Responsible Officer: Payroll Manager
Timescale: 31 October 2016
NDR property reconciliations - The Authority does reconcile the properties between the NDR and VO reports, and there are currently two cases where properties don’t reconcile but officers are aware of the reasons why the systems don’t reconcile and will be correcting them. The reconciliation amendment will not impact on the customers’ liability or debit raised.
Responsible Officer: Revenues Manager
Timescale: 31 October 2016
Housing Benefit Agresso reconciliation - Management recognise that the reconciliation process needs to be improved, and officers will be revising the process to exclude prior balances from the reconciliation data to ensure it is not included in error.
Responsible Officer: Strategic Finance Manager
Timescale: 31 December 2016</td></tr>
</table>

Key issues and recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
6	2	**Cut-off and accruals accounting** We performed cut-off procedures over the Authority's non-pay expenditure controls. The Authority needs to recognise expenditure incurred within the correct financial year. Our cut-off procedures are designed to test the effectiveness of the Authority's process for identifying and allocating expenditure to the correct financial year. We tested 10 transactions around the year-end closedown date and identified that one invoice which should have been accrued had not been. The value of this invoice was for £2,240, which is above the Authority's *de minimis* threshold and therefore should have been accounted for within 2015/16. Whilst further investigation deemed the issue to be immaterial to the audit, and therefore no adjustments are proposed, this is a key control operated by the Authority and should be operated consistently during the year. **Recommendation** The Authority should ensure it strengthens its year end cut-off procedures and that controls are sufficiently-robust to ensure correct procedure is followed. The Authority may wish to consider the impact on raising its de minimis level to reduce the manual input required in this process. A review of cut-off is particularly important given the move to a shorter timetable for the accounts process from 2017/18, and the reduced time to produce the financial statements.	**Accepted.** Management accept this advice and they intend to review the de minimus level for accruals from £1,000 to £5,000 in order to make the process more efficient in the future to enable the reduced statutory deadline for the closure of accounts to be achieved. This will allow more time for increased controls over the manual accruals process which arguably present a greater risk. *Responsible Officer: Chief Finance Officer* *Timescale: 31 March 2017*

Key issues and recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
7	3	**Data provided to the pensions authority** Our testing of April to December 2015 pensions return to the pensions authority identified minor variances between the data provided and source data held by the Authority. The Authority had since alerted the pensions authority of these discrepancies; however due to the small values, there was no impact on the actuarial calculations. Nonetheless, our findings identified that checks over the pensions return were not made prior to submission. **Recommendation** The Authority should review all information provided to the pensions authority on a monthly basis. This should be evidenced via sign-off by a senior individual.	**Accepted.** Management accept this recommendation and work is being done between the Pensions and Financial Systems teams to ensure more a complete reconciliation is done which is then signed off by an appropriate manager *Responsible Officer: LGSS Financial Systems Manager* *Timescale: 30 November 2016*
8	3	**Payroll data quality** As part of our audit approach, we undertook data analytics over the Authority's payroll transactions for the year. We did not find any material issues; nonetheless, we noted some minor data quality issues, such as incorrect addresses and duplicate National Insurance numbers. We have provided the full results to the Authority separate from this report. We noted salary payments made to employees after their effective end date. All of these have been investigated by the Authority and confirmed as appropriate. **Recommendation** The Authority should investigate instances of data quality issues. In addition, the Authority should investigate all incidences of salary payments to staff after the end dates.	**Accepted.** Management have reviewed the findings and whilst there are no significant issues, processes have already been updated during 2015/16 to address issues around national insurance numbers. A further review of data held around historic / incomplete postcodes will be undertaken *Responsible Officer: Payroll Manager* *Timescale: 31 December 2016*

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2014/15*.

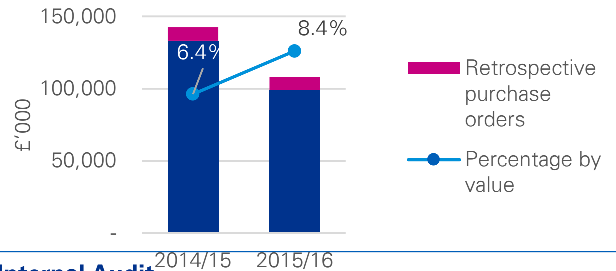
We re-iterate the importance of the two outstanding recommendations and recommend that these are implemented as a matter of urgency.

This Appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2014/15* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	2

P/Y No.	Risk	Original 2014/15 issue and recommendation	Agreed 2014/15 action, Officer responsible and due date	Status as at September 2016
1	❶	**Retrospective raising of purchase orders** Testing identified that purchase orders need to be raised prior to the Authority committing itself to purchasing goods/services. All purchases need to be authorised, and this authorisation is only carried out at purchasing order stage for those items that require a purchase order. We noted that £7.7 million worth of expenditure in year was not appropriately authorised prior to placing an order with a supplier. In these cases purchase orders were raised retrospectively which potentially opens the Authority to potential fraud or impropriety and is contrary to the Authority's policy. **Recommendation** The Authority should ensure that purchase orders should be raised for the purchasing of goods and services through the purchase order process (where appropriate), prior to the Authority committing itself to the purchase. *(continued)*	**Agreed.** This amount of expenditure (£7.7 million) represents approximately 3% of the value of all invoices raised in 2014/15. This indicates a good level of financial management with 97% of purchases requiring a purchase order being processed appropriately. All purchases made were from approved budgets and were subject to appropriate segregation of duties for final authorisation of payment. *(continued)*	**Partially implemented. Reiterated.** In the Authority's response to our 2014/15 recommendations, the Authority stated that of the £7.7 million retrospective purchase orders identified from April 2015 to January 2016, the majority (£5.3 million) relate to contract expenditure and appropriate procurement procedures had taken place. This leaves £2.2 million (2.5%) which appear to have bypassed procurement procedures during that period, and the issue of retrospective purchase orders still remains. *(continued)*

Follow up of prior year recommendations

P/Y No.	Risk	Original 2014/15 issue and recommendation	Agreed 2014/15 action, Officer responsible and due date	Status as at September 2016
		(continued) Reports should be run on a regular basis to identify all non compliance and take appropriate follow up action.  	*(continued)* The Authority will review this level of efficiency and continue to provide financial management training to further improve procurement compliance. **Responsible Officer: Glenn Hammons** **Due Date: Quarterly review**	Scheduled payments under contracts can be anticipated, thus there is no need for the purchase orders to be initiated retrospectively. Our review at year end indicated that there were 885 retrospective orders raised, totalling £9.1 million. This is an increase from the prior year (£7.7 million). A formal report was taken to the management board in autumn last year, and the Authority has stated that from January 2016 monitoring of non-compliance has been integrated into the Management Board dashboard report. However, the report does not currently indicate any actions taken on non-compliance.
3	3	**Internal Audit** Responsibility for internal audit services is split between PwC and LGSS. It appears that the process for splitting areas of responsibility has been inconsistent and in some cases the areas of internal audit work which we had intended to rely upon had not been delivered. This resulted in KPMG having to undertake and complete additional controls testing as part of our year end audit programme. **Recommendation** The Authority should ensure that it undertakes a thorough assessment of both internal audit providers annual audit plans for 2015/16 to ensure that appropriate assurance and systems coverage is provided during 2015/16.	**Agreed.** The Authority has set up regular meetings with LGSS and PWC Internal Audit team to ensure that the work coverage supports the requirements of KPMG. The Monitoring Officer is currently undertaking this review and Audit Committee are engaged to ensure requirements are met. **Responsible Officer: Francis Fernandez** **Due Date: 31 March 2016**	**Partially implemented. Reiterated.** We note that there has not been a thorough assessment of both internal audit providers' annual audit plans for 2015/16. Going forwards, we note that the Authority's internal audit provider (PwC) has issued its internal audit plan for 2016/17. There is no indication that this has been coordinated with LGSS. We re-iterate our recommendation that there should be a thorough assessment of both providers to ensure appropriate coverage, particularly where the providers rely on a rolling audit plan. There is a planned meeting in September between the two providers to ensure a more coordinated approach.

Materiality and reporting of audit differences

For 2015/16 our materiality is £2.7 million for the Authority's accounts.

We have not identified material adjustments to the financial statements to date. A final list of adjustments will be presented to the Audit Committee upon the completion of our audit.

Materiality

The assessment of what is material is a matter of professional judgment 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 used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £2.7 million which equates to around one 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £135,000 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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of A*udit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2016, 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.

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