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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 has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

## This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 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 2013/14 financial statements; and
- the work to support our 2013/14 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 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during April 2014 (interim audit) and July 2014 (year end audit).

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

## VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and

- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

## Structure of this report

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section four outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

## Acknowledgements

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

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

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
<b>Audit adjustments</b>	We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of other adjustments, most of which were of a presentational or classification nature. However General Fund earmarked reserves increased by £1,364k and capital grants unapplied increased by £1,165k as a result of these.
<b>Accounts production and audit process</b>	The Authority has good processes in place for the production of the accounts and good supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within planned timescales.  We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately as set out on pages 5 and 6.
<b>Control environment</b>	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.  We have raised two recommendations arising from our work, which are set out in Appendix 1.
<b>Completion</b>	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter.  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.
<b>VFM conclusion and risk areas</b>	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.  We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.
<b>Audit closure</b>	We have received a formal objection to the Authority's accounts in relation to the Abington Street works. Whilst we are satisfied that it has no material impact on the opinion on the statement of accounts or significant impact on our overall 2013/14 VFM conclusion the audit cannot be formally closed until the objection is decided.

**We have identified no issues in the course of the audit of the audit that are considered to be material.**

**We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.**

**The wording of your Annual Governance Statement accords with our understanding.**

### **Proposed audit opinion**

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 09 September 2014.

### **Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. There are no uncorrected audit differences.

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.

We did not identify any material misstatements.

Our work identified a non material error relating to funds receivable from S106 agreements which were being treated as grants received in advance. Following investigation by your officers amendments to the accounts were agreed which increased General Fund earmarked reserves by £1,364k and capital grants unapplied by £1,165k.

We discussed with your officers the value at which council dwellings are held on your balance sheet. Formal valuations are obtained for 1 April each year, as required by CLG guidance. However these values are not normally available until late autumn, which is too late for inclusion in the statement of accounts, so the values as at 1 April at the start of the financial year are used. The Council had not considered uplifting the figures to represent the valuation at the end of the year based on available indices. Officers have now agreed to include within the accounts a note about valuation estimation uncertainty, highlighting the possible change in value of these assets.

We did identify a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('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; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in April 2014, we identified the key risks affecting the Authority's 2013/14 financial statements. Since then we also identified an additional risk around the accounting for the business rate retention scheme, which we have detailed below. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

In addition to the above we also noted that the finance function is now the responsibility of LGSS and that there was a risk that the move to the new organisation might impact on the production of the 2013/14

accounts. Our monitoring of the closedown process did not identify any adverse impact as a result of the transfer, and the accounts were delivered by the deadline

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.

Key audit risk	Issue	Findings
	<p>During the year, the Local Government Pension Scheme for Northamptonshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Northamptonshire County Council who administer the Pension Fund.</p>	<p>As part of our audit, we agreed the data provided to the actuary back to the systems and reports from which it was derived, and tested the accuracy of this data.</p> <p>We liaised with the separate KPMG audit team for the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
	<p>On 1 April 2013 a new system of business rate retention began which saw the Council enter into a pooling arrangement with the other Northamptonshire district councils. Some of the guidance relating to the changed requirements was late in being issued.</p> <p>This meant that the new national arrangements and associated pooling arrangements presented new accounting challenge for all councils this year and brought a risk that NNDR income and associated accounting entries may be misstated.</p>	<p>We reviewed the accounting treatment for business rates and found it to be inline with the CIPFA guidance.</p>

Following the transfer to LGSS the quality of the accounts has been maintained and LGSS provided good supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

### 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.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has good financial reporting arrangements in place. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 30 June 2014.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued in March 2014, and discussed with the finance team. The quality of working papers was of a good standard and assisted the delivery of a smooth audit engagement.
<b>Response to audit queries</b>	Officers were proactive in resolving audit queries, this meant responses were timely and of a good standard.

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendation in last years ISA 260 report. We are pleased to report that this has been implemented.

**The Authority's organisation control environment is effective, and controls over the key financial systems are effective.**

During April 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

### Organisational control environment

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 therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall.

### Review of Internal Audit

We consider the work of internal audit in our review of the control environment, including the outcome of their reports and coverage in the audit plan. There is nothing significant in this respect that impacts on our audit of the statement of accounts

We note that following the transfer of finance functions to LGSS the role of internal audit at the Council has been split into two. PWC continue to provide assurance regarding those functions retained by the Council, while LGSS internal audit provides assurance over the operation of systems within LGSS.

The PSIAS require public sector organisations to commission an external review of internal audit. The Council has not yet done this for the internal audit services provided by PWC, but intends to commission such a review within the next year. A review of LGSS internal audit will be undertaken, as required, by 1 April 2018.

### Controls over key financial systems

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

Our own work undertaken at both the interim and year end visits did not identify any significant weaknesses in controls over key financial systems, but we have raised 2 recommendations in Appendix 1 for further improvement to your systems.

**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. However we cannot close our audit until an objection is decided.**

### **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 2014, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 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 Head of Finance 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 judgment, 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 others 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 2013/14 financial statements.

### **Objection to the accounts and audit certificate**

We have received a formal objection from a local government elector relating to the works being undertaken in Abington Street. Whilst we are satisfied that it has no material impact on the opinion on the statement of accounts or significant impact on our overall 2013/14 VFM conclusion the audit cannot be formally closed until the objection is decided.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

### Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We note that following the transfer of functions to LGSS the Council commissioned a review of risk management procedures from Internal Audit to ensure that adequate procedures were in place throughout the year, which identified four areas for improvement. The Council intends to undertake a detailed review of this area in 2014/15.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



## Appendix 1: 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		
<p><b>1</b> <i>Priority one:</i> 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.</p>	<p><b>2</b> <i>Priority two:</i> 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.</p>	<p><b>3</b> <i>Priority three:</i> 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.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>2</b>	<p><b>Business rates pooling spreadsheet:</b></p> <p>The spreadsheet, hosted by Kettering Borough Council (KBC), contains information for each of the participating Councils (including Northampton) but none of the Councils formally confirmed the accuracy of their information. Errors in the spreadsheet may affect Northampton's contribution to the pool and to central government.</p> <p><b>Recommendation</b></p> <p>In future years the Authority should confirm in writing to KBC that its information held on the spreadsheet is accurate, and should encourage other participating councils to do likewise. The Authority should obtain confirmation from KBC that this has been done by all authorities.</p>	<p>Agreed. Officers are currently seeking to obtain these formal confirmations for 2013/14.</p> <p>Deputy S151 Officer</p> <p>Date: June 2015</p>
2	<b>3</b>	<p><b>Business rates annual billing:</b></p> <p>The Business Rates Manager performs accuracy checks of annual billing information for a sample of accounts but there is limited evidence of this.</p> <p><b>Recommendation</b></p> <p>The Business Rates Manager should retain evidence of checks performed as confirmation of operation of this control.</p>	<p>Agreed</p> <p>Business Rates Manager</p> <p>Date: March 2015</p>

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

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 Audit Commission’s *Standing Guidance for Local Government Auditors* ('Audit Commission 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. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit 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.

### 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.

**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.**

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 2014, 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 Audit Commission's requirements in relation to independence and objectivity.



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