External Audit Report 2015/16

Northamptonshire County Council

September 2016

Contents

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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 694 8981, 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 3H.

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 both the Authority and its Pension Fund; 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 Northamptonshire County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); 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 February 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 Report 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 Report 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.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work and we included early findings in our *Interim Audit Report 2015/16*. We have now completed the work to support our 2015/16 VFM conclusion. This 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 one. We have also reviewed your progress in implementing prior year 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 2015/16 headline messages for the Authority and the Fund. 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 2015/16 financial statements by 30 September 2016, inclusive of the consolidated Group financial statements. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's 2015/16 financial statements, as contained both in the Authority's 2015/16 Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.
Audit adjustments	Our audit is substantially complete at this point in time we have identified one material audit adjustment with a total value of £4 million. This adjustment was to correct assets incorrectly categorised as 'Assets Under Construction'. The impact of this adjustment is to: — increase the deficit on provision of services for the year by £4 million; and — decrease the net worth of the Authority as at 31 March 2016 by £4 million. We have included further details of the adjustment in Appendix two. We anticipate this will be corrected by the Authority. We have raised a number of recommendations in relation to the matter highlighted above, which are summarised in Appendix one.
Key financial statements audit risks	We identified the following risk to the financial statements in our 2015/16 External Audit Plan issued in February 2016: **Fair value of Property, Plant and Equipment** The Authority appointed new external valuers (Wilkes, Head and Eve LLP) to undertake valuations during the 2015/16 financial year. We have undertaken our assessment of the Valuers, including reviewing the terms of engagement to ensure compliance with the Authority's accounting policies and appropriate treatment of VAT in relation to valuations. We obtained the instructions provided to the valuer and considered the source of the information, and have undertaken appropriate testing to ensure both its completeness and accuracy. Our work also reviewed the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements. We also reviewed the basis upon which impairments to Property, Plant and Equipment have been calculated, including any associated assumptions. Our work did not identify any significant issues nor material audit differences. We worked with Officers throughout the year to discuss these key risk(s) and our detailed findings are reported in section three of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

This table summarises the 2015/16 headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Accounts production and audit process	We received complete draft 2015/16 accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. During the audit we have raised a number of issues with the timeliness and quality of the Authority's working papers and responses to audit queries. In particular: - In line with the Authority's request for an earlier audit, we agreed to commence our on-site 2015/16 final accounts visit two weeks earlier than in previous years. The Authority agreed to prepare working papers for this date, 20 June 2016, to facilitate this in line with our Prepared by Client (PBC) request. However, due to capacity issues within the Finance team the vast majority of working papers were not available at this date. Working papers were available on 24th June, however due to our planned off-site sampling week (w/c 27th) we were unable to fully commence our work until 4 July 2016. This caused significant delays to our audit timetable; - Despite requests for information in advance of the audit in respect of Accounts Payable data (requested in March 2016), this was not made available to us until August 2016, after our planned on-site visit. Evidence relating to sample testing in Accounts Payable took six weeks to be provided, evidence in other areas such as Journals and Capital took three to four weeks to be provided; - Working papers relating to debtors and creditors initially provided did not reconcile to figures disclosed in the draft financial statements. The Authority amended the working papers so the figures in the financial statements could be agreed to the supporting audit trail; - The fixed asset register and supporting working papers remain overly complex and fragmented, and does not provide clear and concise audit trails to facilitate the efficient audit of these balances. There continues to be significant opportunities for improvements in this area; and - Late adjustments made to the accounts, for example changes made to the Officer's Remuneration note on 7th September in respect of payments made to the Chief Fire Officer, and pension adjustments for TUPE'd staff. We are currently checking through these late amendments. These delays meant we were unable to complete our audit in line with our agreed timetable. This represents a deterioration from the previous year where improvements were noted and reported in our *ISA 260 Report 2014/15*, following our recommendation in our *ISA 260 Report 2013/14*. However, the Authority was unable to meet the earlier deadlines this year, which raises concerns over the Authority's ability to meet the mandatory early closedown deadlines in 2017/18. Further details can be found in the recommendation raised in Appendix one. We have already held a debrief with the Section 151 Officer on these matters, and will undertake a more detailed debrief with the Finance team on conclusion of the audit. We would like to thank Officers for their assistance this year.

Headlines (cont.)

This table summarises the 2015/16 headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

VFM conclusion and risk areas	We identified a VFM risk in our External Audit Plan 2015/16 relating to: **Financial resilience** The Authority set a net budget requirement of £415 million for 2015/16 and faced significant challenges in delivery. Whilst the budget was delivered by 31 March 2016, continued demand pressures alongside non-delivery of full savings plans, meant this could only be achieved through a variety of mitigating actions and non-recurrent transactions. This included the need to utilise £16.5 million from earmarked reserves. Adult Social Care overspent by £8.5 million, whilst Children, Families and Education incurred a £20.9 million overspend. Corporate Services reported a £30.4 million underspend relating to the aforementioned use of earmarked reserves in year, a further review of MRP policy in year, and a strategy of internal borrowing reducing in net interest payable. As of July 2016, the Authority reported that £34.9 million of the £65 million savings planned for 2016/17 (54%) were rated as either Amber or Red. Furthermore, the Authority also reported current year pressures of £13.6 million. At 31 March 2016 the Authority had a balance of £12.0 million in the General Fund reserve and £22.1 million in Earmarked Reserves following a transfer of £43.2 million in the year. Therefore the Authority does not have the reserves in place to make a similar level of transfer in 2016/17 should the savings fall below planned levels in 2016/17. We are unable to state that Northamptonshire County 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 2015/16 value for money opinion. The S151 Officer has advised us of the actions he has been taking during these challenging financial times for Northamptonshire as he has striven to strengthen the financial management arrangements. This has included improvements to business planning through the introduction of service business plans to drive accountability and the development of project plans for all savings lines to support delivery. We anticipate issuing a qualified 2015/16 VFM conclusion by 30 September 2016. Our detailed findings are reported in section 4 of this report.

Headlines (cont.)

This table summarises the 2015/16 headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of our final review procedures, and resolution of outstanding queries including those in respect of accounts payable, senior officer remuneration. We are awaiting the authority to provide the legal agreement between the Authority and the Pension Fund in respect of pension arrangements between the Authority and LGSS Law Ltd (a jointly owned subsidiary with Cambridgeshire County Council). Upon receipt of this we will perform work to confirm if the obligation is required to be accounted for in the Authority or the LGSS Law Ltd financial statements. We have communicated with the Authority and they decided not to make an adjustment to their financial statements in respect of the obligation, if required, due the obligation not being material to the Authority. We will provide a verbal update to the Committee. Before we can issue our opinion we require a signed management representation letter. 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 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 are asking management to provide specific representations including those relating to pension liabilities. We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s 2015/16 financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

Our 2015/16 audit has identified a total of one audit adjustment.

The impact of these adjustments is to:

- **Increase the deficit on the provision of services for the year by £4 million; and**
- **Decrease the net worth of the Authority as at 31 March 2016 by £4 million.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2015/16 financial statements following approval of the Statement of Accounts by the Audit Committee on 19 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 £10 million. Audit differences below £0.5m are not considered significant.

Our audit identified one significant audit difference, which we set out in Appendix two. This relates to the misclassification of property, plant and equipment as Assets Under Construction. The value of this adjustment is £4 million. It is our understanding that this will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

One adjustment was identified over the Assets Under Construction balance however the net impact on the General Fund at 31 March 2016 is nil as a result of the adjustment. Details of the adjustment can be found in Appendix two.

Movements on the general fund 2015/16

£m	Pre-audit	Post-audit
Deficit on the provision of services	80,689	84,689
Adjustments between accounting basis and funding basis under Regulations	51,197	55,197
Transfers from earmarked reserves	43,205	43,205
Increase/Decrease in General Fund	-	-

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit
Property, plant and equipment	1,065,426	1,061,426
Other long term assets	53,884	53,884
Current assets	162,673	162,673
Current liabilities	(287,402)	(287,402)
Long term liabilities	(1,150,960)	(1,150,960)
Net worth	**(156,379)**	**(160,379)**
General Fund	12,010	12,010
Other usable reserves	101,765	101,765
Unusable reserves	(270,154)	(274,154)
Total reserves	**(156,379)**	**(160,379)**

Proposed opinion and audit differences (cont.)

We have identified no issues in the course of the 2015/16 audit of the Fund that are considered to be material.

We anticipate issuing an unqualified 2015/16 audit opinion in relation to the Fund's 2015/16 financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

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

In addition, we identified a number of presentational adjustments required to ensure that the 2015/16 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.

Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used materiality level of £16 million. Audit differences below £0.8 million are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 19 September 2016.

Our audit did not identify any material misstatements. There were a number of minor presentational matters, which Officers have amended to ensure that the accounts are compliant with the Code.

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 made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Pension fund annual report

We have reviewed the 2015/16 Northamptonshire County Council Pension Fund annual report and confirmed that:

— It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and

— The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Northamptonshire County Council Pension Fund at the same time as our opinion on the 2015/16 Statement of Accounts.

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*, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. 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.

Fair value of Property, Plant and Equipment

Risk description

The Authority appointed new external valuers (Wilkes, Head and Eve LLP) to undertake valuations on PPE balances for2015/16.

The Authority was required to ensure that the new valuers have been appropriately engaged and that clear instructions and source data have been issued to the valuer to enable complete and accurate valuations to take place, in line with the Authority's accounting policies and the CIPFA Code of Practice on Local Authority Accounting in the UK 2015/16 (the Code).

The Authority needed to continue to monitor the quality of the valuations produced by the external valuer and provide evidence of adequate challenge where valuations are outside of expectations.

Findings

We have detailed below our findings for each area of our approach to this significant risk.

Approach	Findings
External Valuer	A review was undertaken of the assumptions detailed in the final report and followed up through a communication with the external valuers. Through this review we found the valuers approach and methodology to be reasonable.
Control Environment	In our interim report we highlighted that we had reviewed the controls put in place by management over the valuation process. From this testing we were able to confirm these controls were operating effectively.
Substantive Testing	During our final accounts work we performed testing to verify that the valuations had been appropriately included in the Fixed Asset Register. Our testing did not identify any differences between the valuation report or the Fixed Asset Register.

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.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in February 2016, we identified three 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. The table sets out our detailed findings for each of such areas of audit focus.

IFRS 13 Surplus Assets

Due to the inherent risk associated with the estimation of assets and the implementation of IFRS 13 which require surplus assets to be measured at fair value for 2015/16, we consider this to be a significant risk.

Findings

We have performed substantive testing over management’s reclassification of assets as disclosed in Note 11 of the Statement of Accounts. This has included reclassification of assets to surplus assets. This includes reviewing the evidence behind the reclassification of assets. Our testing did not identify any material errors in managements' classification of Fixed Assets. Valuation of surplus assets were in line with the external valuers report.

MRP Calculation

The Authority is considering updating its MRP policy.

Findings

We confirmed management had made changes to their MRP policy during 2015/16 which created a movement of £3 million. We performed an initial assessment as part of our interim work. Management has supplied their MRP calculation which we are currently reviewing and testing. A verbal update will be provided to the Committee outlining our progress in testing this calculation.

Non pay expenditure

A number of recommendations were made in our 2014/15 audit findings report in regard to the Accounts Payable System.

Findings

To inform our understanding of the Accounts Payable System we communicated with management that we would undertake Data Analytics work for 2015/16 on non pay expenditure. We included our Data Analytics request in our *Accounts Audit Protocol* issued to the Authority in February to provide sufficient time for the data to be extracted and overcome any challenges in obtaining the data. The Authority were delayed in providing the required data sets to ourselves and these were not provided until late July 2016. This delay in providing the data meant we were unable to complete our analytics testing until significantly later in the audit cycle. The results have been fed back to the Authority for comment and follow up and we are awaiting these. We will provide a verbal update to the Committee on the progress of the Authority in answering our Data Analytics queries.

Accounts production and audit process

We have noticed a deterioration in the quality of the accounts and the supporting working papers.

Generally, Officers dealt with audit queries within one to two weeks of inquiry. However, there were instances where queries were not dealt with in a sufficiently prompt manner which has resulted in long delays of up to six weeks.

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	We consider that accounting practices are appropriate.
Completeness of draft accounts	In line with the Authority's request for an earlier audit, we agreed to commence our on-site final accounts visit two weeks earlier than in previous years. The Authority agreed to prepare working papers for this date, 20 June 2016, to facilitate this in line with our Prepared by Client (PBC) request. However, due to capacity issues within the Finance team the vast majority of working papers were not available until 4 July 2016. This caused significant delays to our audit timetable. Working papers relating to debtors and creditors initially provided did not tie into figures disclosed in the draft financial statements, these had to be reissued by the Authority. These delays meant we were unable to complete our audit in line with our agreed timetable.
Response to audit queries	Generally, Officers dealt with audit queries within one to two weeks of inquiry. Evidence relating to some areas of sample testing took six weeks to be provided, such as Accounts Payable, Journals, and Capital. This caused significant delays to the audit process.

Element	Commentary
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in February 2016 and discussed with Group Accountant – Closedown, set out our working paper requirements for the audit. The quality of working papers provided was variable but overall met the standards specified in our *Accounts Audit Protocol*. Despite requests for information in advance of the audit in respect of Accounts Payable data (requested in March 2016), this was not made available to us until August, after our planned on-site visit. The fixed asset register and supporting working papers remains overly complex and fragmented, and does not provide clear and concise audit trails to facilitate the efficient audit of these balances. There continues to be significant opportunities for improvements in this area.
Group audit	To gain assurance over the Authority's 2015/16 group accounts, we placed reliance on work completed by Grant Thornton UK LLP on the financial statements of Olympus Care Services and Northampton Trading Ltd. There are no specific matters to report pertaining to the group audit.
Pension Fund Audit	We have worked closely with Officers during the year and have seen an overall improvement in the quality of working papers provided. The audit of the Fund was completed in June. There are no specific matters to bring to your attention relating to this.

As a result of the above we have raised a recommendation in respect of the Authority's working papers which is included in Appendix one.

We are currently discussing with Officers the impact of the delays in working papers and queries responses have had on the additional time taken.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2015/16 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 Northamptonshire County Council and Northamptonshire Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Northamptonshire County Council and Northamptonshire Pension Fund, 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. We have provided a template to the Section 151 Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional 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.

Section four: Value for Money

VFM Conclusion

Our 2015/16 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.

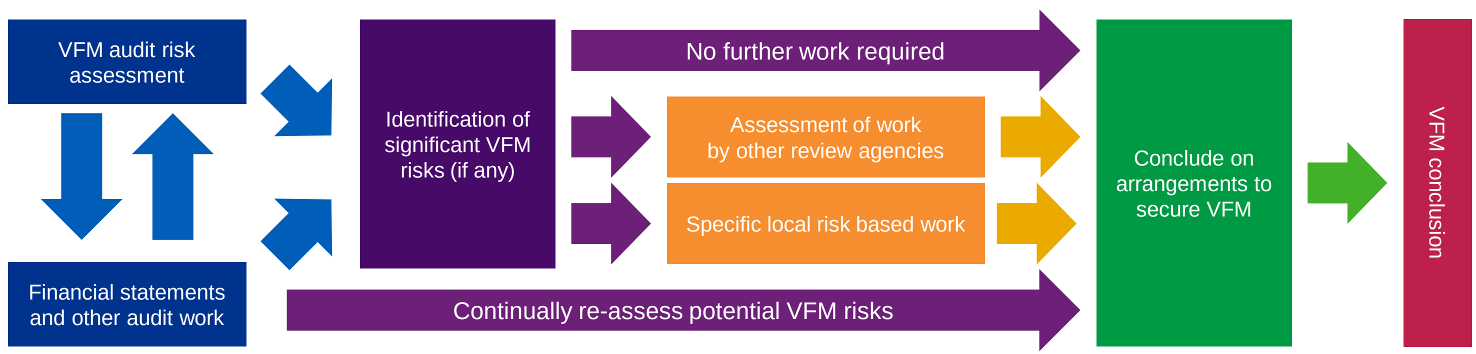
Conclusion

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.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
Not Met	**Not Met**	**Met**



Specific VFM Risks

We have identified a number of specific 2015/16 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 *2015/16 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

On the following page we set out the findings in respect of those areas where we have identified a residual audit risk for our 2015/16 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 2015/16 VFM risks.

We are unable to state that Northamptonshire County 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

In February 2016, the Authority set their final 2016/17 budget and medium term financial plan to 2019/20. The Authority is facing its most significant financial challenges to date and continues to face large spending pressures. The Authority has set a net revenue budget of £416.468 million for 2016/17. Savings of £65 million are required in 2016/17, with total savings required of £131 million up to 2019/20.

In relation to 2015/16, the Authority set a net budget requirement of £415 million and faced significant challenges in delivering this as planned. Whilst the budget was delivered by 31 March 2016, continued pressures (demand in Children's, and Adult's Services) alongside non-delivery of full savings plans, meant this could only be achieved through a variety of mitigating actions and non-recurrent transactions. This included the need to utilise £16.5 million from earmarked reserves.

Adult Social Care overspent by £8.5 million. Of the £32 million savings target, a programme of transformation realised £10.4 million in year, with £13.6 million of in-year mitigating actions. Children, Families and Education incurred a £20.9 million overspend. This includes pressures relating to the impact of unplanned for increases in demand for services, as well as £8 million relating to the additional costs associated with employing a high number of expensive agency social workers. Corporate Services reported a £30.4 million underspend relating to the aforementioned use of earmarked reserves, a further review of MRP policy in year, and a strategy of internal borrowing which is designed to reduce the net interest payable.

As of July 2016, the Authority reported that £30 million (46%) of the £65 million savings plan for 2016/17 was either delivered or assessed as being fully deliverable by 31 March 2017. Of the total 84 proposals, 29 proposals (£29 million, 45% of total) were RAG rated as Amber, and 6 proposal (£5.9 million, 9% of total) rated as Red. Within these 6 proposals are those relating to Children's Services, Adult Services, and NCC Group. Furthermore, the Authority also report current year pressures of £13.6 million. This includes pressures in Children's Services of £21.8 million due to anticipated non-delivery of the full savings plans (£10.5 million) and unanticipated increases in demand (£11.3 million). This is reported to be offset by £14.7 million of in year mitigations. Adult Social Care currently reported £22.2 million of pressures before mitigating savings, including £9.2 million relating to Better Care Fund and Adults commissioning, and £13 million of base budget pressures. Following £43.2 million of transfers in 2015/16 the Authority does not have the reserves in place to make a similar level of transfer in 2016/17 should the savings fall below planned levels in 2016/17.

We have reviewed the arrangements in place to manage and deliver financial savings under increasingly difficult circumstances, including critically assessing the Authority's financial standing and reviewing the robustness of the Medium Term Financial Plan. This included reviewing the delivery of the Authority's savings programme and any mitigating actions taken, and evaluating the arrangements the Authority have in place in identifying further savings for future years. We have met regularly with the S151 Officer and key staff to understand the Authority's financial position and assess the adequacy of the Authority's arrangements.

We are unable to state that Northamptonshire County 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 2015/16 value for money opinion.

Appendices

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	❶	**Governance and oversight of the set up of new entities** We have been engaged to carry out the audit of LGSS Law Ltd in 2015/16, one of the new entities set up in the 'Next Generation' model. From our initial review and discussions with management we identified the following issues: • Consideration of pension liability for TUPE'd employees including recognition of the obligation by the Authority and the company; • Governance arrangements of the company including the body holding management to account; • Consideration of the legal and regulatory environment in which the company operates; and • Set up of Financial systems appropriate to the entity from their inception. *Continued overleaf…*	Extensive work is undertaken prior to setting up any new entities, including business cases, planning, budgeting, and appropriate legal and tax advice. The pension arrangements of any new entities are considered, discussed and agreed on a case by case basis in conjunction with the Pension Fund. Each new entity is expected to operate autonomously, with support and oversight from NCC and LGSS staff as appropriate. 2015-16 has been the first year that LGSS Law has been in operation. The Authority will look at the lessons that can be learned from its first year and apply these to the set-up of any subsequent new entities. Planning at an advanced stage for the Next Generation Council model and consideration is being given to ensure that appropriate governance, legal and regulatory arrangements are put in place. Any new entities will operate using the Authority's ERP Gold system and consideration is being given to that as part of the set-up of the new system.

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
		Recommendation The Authority needs to ensure that all new entities have robust governance and review processes in place for their accounts and in preparation for audit. The Authority needs to consider the capability and resource capacity of the key staff involved in the accounts preparation and review.	**Responsible Officer** S151 Officer **Due date** As and when each entity is established
2	2	**Preparation of audit working papers and responses to audit queries** Our Accounts Audit Protocol, issued in February 2016 and discussed with the Group Accountant - Closedown, sets out our working paper requirements for the audit. As part of the Authority's pursuit for a 'faster close' of the accounts and audit process, we agreed to start our audit on 20 June 2016. The full set of working papers was not available until 4 July 2016, causing an initial delay. Additionally, some working papers were missing and had to subsequently be requested again. Our requests for further evidence, such as invoices for sample testing, have had significant delays up to six weeks. **Recommendation** The Authority should review its closedown process for 2016/17 and carefully consider any stretch targets for completion of working papers. The Authority should review the capacity on the Closedown team to meet such targets considering the Finance team's workload.	The preparation of the 2015-16 accounts has been the first year that the Authority has utilised an Integrated Closedown Team. This team has prepared the accounts for NCC, CCC and LGSS. Producing these accounts and managing the subsequent audits simultaneously across the organisations has been challenging. The Authority will undertake a full debrief following the conclusion of the 2015-16 audit, looking at lessons learned and continuing to implement improvements for the future. A restructure of the Authority's Finance directorate is currently under consultation. This includes further strengthening of the Closedown function, and due consideration is being given to ensure that the team is appropriately resourced. KPMG's approach to the 2015-16 audit has differed from that undertaken in prior years, with greater emphasis on analytics, rather than sample testing. This has required the Authority to produce entire datasets of information for the whole year. This has been challenging with the existing system's capabilities, and has resulted in some delays. The Authority will ensure that the set-up of the ERP Gold system is able to facilitate the production of the appropriate reports to support the audit process. **Responsible Officer** LGSS Head of Integrated Finance Services **Due date** 31 December 2016

Appendix one

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	2	**Redundancy provision** Through our testing of the redundancy provision we identified that the Authority has made a 'general provision' for potential redundancies. This included potential redundancies for 15 FTEs and for redundancies made as a result of LGSS/ NBC/ NCC shared services. In total, these provisions are not material, at £324k, however having a general provision is not acceptable under the accounting standards (IAS 37). To have a redundancy provision recognised in the accounts certain criteria must be met, such as issuing 'at risk of redundancy' letters/ informing the staff members at risk. This has not been completed for this provision. **Recommendation** The Authority should review its provisions, particularly the redundancy provisions, to ensure they are complying with the relevant accounting standards. Any potential liabilities that do not meet the requirements of IAS 37 should be reviewed for accuracy and completeness, and the provision reversed in 2016/17.	The calculation of the Authority's redundancy provision is based upon the Section 188 notices produced during the budget setting period. The provision is based upon the indicative FTE numbers stated within these notices. Whilst these don't name specific individuals, the number and posts can be identified. The Authority will review its redundancy provision process to ensure that it is consistent with the relevant accounting standards. **Responsible Officer** LGSS Head of Integrated Finance Services and the Group Accountant for Closedown **Due date** 31 December 2016
4	2	**Service organisation reliance** The Authority relies upon service organisations for the operation of controls over key systems, including IT services and payroll services (schools). The Authority has not received a report on the effectiveness of the controls in place for either service organisation. **Recommendation** The Authority should ensure that the report commissioned for 2016/17 is received in a timely manner, and fulfils the criteria required to provide appropriate assurance. The Authority should request service organisation reports for the payroll providers (Strictly Ed and EDM) to ensure that adequate assurances over key controls are received.	Such a report is already received on an annual basis in respect of Fujitsu and the Authority's ERP system. Some local authority schools choose to utilise external payroll providers. There are controls in place in relation to these payroll services. For example, each school is required to check and approve the payroll figures before each monthly payroll run. The Authority will work with these schools to ensure that sufficient reports can be evidenced for 2016-17. **Responsible Officer** LGSS Head of Payroll **Due date** April 2017

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
5	3	**Assets under construction** At year end the Capital team will meet with budget managers to assess the assets under construction balance and determine whether the assets are complete or still under construction. On review of the process we identified that there was limited evidence to support some of the decisions made to move assets between categories, and identified a £4m misstatement within the closing assets under construction balance. **Recommendation** The Authority should review the controls in place over the reclassification and movement of assets from assets under construction to strengthen the procedures in place.	The Capital team work with budget managers throughout the year to validate the operational state of assets as individual capital schemes progress. Managers' reclassification decisions will be recorded electronically and retained as audit evidence. Progress will be reviewed during the 'soft closedown' period in January 2017, to ensure that sufficient evidence is available in readiness for year end. This will be considered alongside the forthcoming restructure of corporate finance functions (currently under consultation) to ensure that there is sufficient capacity and knowledge within the team. **Responsible Officer** Head of Strategic Assets and LGSS Head of Integrated Finance Services **Due date** 31 December 2016

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
6	3	**Schools bank reconciliations** As part of our testing over the year end bank balances, we reviewed a number of schools bank reconciliations. We experienced significant delays in obtaining two bank reconciliations and noted that these were performed in late July/ early August, following our request for the reconciliation. **Recommendation** Schools bank reconciliations should be performed in a regular and timely manner from month/ year end – best practice is to perform the reconciliation within the following month. The Authority should review the controls in place over completion of the schools bank reconciliations and the monitoring of timely completion.	The recommendation is agreed that the school bank reconciliations should be performed in a timely manner. This year however there were some exceptional circumstances with the schools finance team being understaffed at the end of 2015-16 it was therefore not possible to ensure for as many schools as we would normally that their bank accounts tied back to the amount held on the LAs balance sheet as their yearend 'cash' balance. All of the 4 KPMG requested schools bank reconciliations were provided within a week or two of being requested so we are surprised at the 'significant delays' wording in the commentary. Earlier requests for bank reconciliations in the audit process by KPMG would be helpful going forward. Procedures will be reviewed to see where any improvements can be made, taking account of resource implications. Looking ahead there are plans to integrate the Schools Finance teams across the LGSS Partners which will offer greater resilience and sharing of best practice. **Responsible Officer** LGSS Head of Integrated Finance Services and Group Accountant for Schools **Due date** 28 February 2017

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
7	❸	**Budget monitoring submissions** As part of our review of budget monitoring processes we have identified that a number of budget managers are not submitting their budget workbooks evidencing their review. **Recommendation** The Authority should ensure that manager's are submitting their budget workbooks monthly. Failure to submit reviewed budgets should be monitored and actions taken by the Authority.	Budget workbook returns are monitored on a monthly basis, and a listing is produced detailing showing which managers have not submitted their workbooks. This forms part of the finance dashboard which is reported to NCC Management Group on a monthly basis. In addition, a budget workbook email is sent to budget managers on a monthly basis which includes a reminder to complete their workbook and a link to the workbook return log. This is to increase awareness and highlight overall performance. The Authority will look to improve the communication around this process so that non-submission of budget workbooks is given more prominence. Other methods of communication with budget managers will be considered, such as Informer and Core Brief to ensure that budget managers are fully aware of their responsibilities. The Authority has recently revamped its budget manager training course. This will be delivered across a series of sessions in the autumn in conjunction with colleagues from CIPFA. The training will be mandatory for budget managers and it will emphasise their roles and responsibilities in relation to financial management. **Responsible Officer** Section 151 Officer **Due date** With immediate effect. Training delivered during September through to November 2016.

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
8	3	**Journal entries (Authority and Pension Fund)** Journals can be posted by anyone in the Pensions ledger without any authorisation. There are no limits on the value of the journals. An annual review is in place however the individual performing the review posts journals themselves , indicating a lack of segregation of duties. They also would be required to review journals posted by more senior staff members, which they may be less likely to question or challenge if they seem unusual. **Recommendation** Both the Authority and the Pension Fund should explore available options to improve its journal controls. This review should consider how the system can be utilised to support improved: • Segregation of duties regarding the authorising, posting, reviewing and reconciling of journal entries; • Access rights controlling who is authorised to record and approve journal entries along with the posting and authorisation limit; and • Oversight of the journal entry-posting process by members of management including post-entry review based on a defined risk based approach.	Journals can only be posted by staff with the appropriate responsibilities and sufficient professional knowledge. These staff are predominantly within the Finance, Pensions and Transactions teams. This functionality is not generally given to staff in the wider organisation. A validation process is undertaken prior to each journal being loaded. This checks that the template has been completed correctly and that the required information has been provided. Whilst there is no explicit approval at the point of entry, there are procedures in place to identify miss-postings retrospectively. Budget managers review the transactions posted against their budget groups as part of the Monthly Financial Reporting (MFR) process. Finance Business Partner teams also scrutinise transactions and balances as part of the MFR process. Regular reconciliations also take place on bank, cash, suspense and control accounts. The authority is currently is the process of implementing the ERP Gold system. Consideration will be given to ensure that an appropriate journal entry process is instigated in the new system. **Responsible Officer** Section 151 Officer and LGSS Head of Pensions **Due date** 30 November 2016

Follow up of prior year recommendations

The Authority has implemented the recommendations raised in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the 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	2
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Status
1	2	**Fixed Asset Register and supporting records** Our review of the fixed asset register and supporting evidence identified that the audit trail remains overly complex and fragmented, with a multitude of Excel based working papers, many of which are not fully cross referenced nor easy to follow without detailed explanation from Officers. As a result, additional time was spent reviewing and understanding these transactions in order to obtain sufficient assurance over balances. There are significant opportunities for improvements to be made in providing clear and concise audit trail of underlying transactions. This will ensure an efficient audit of this area. **Recommendation** The Authority has now addressed the main issues arising in previous years regarding risks relating to fixed asset valuations. It now should take the opportunity to undertake an in-depth quality review of the fixed asset register and supporting capital records. It should consider streamlining the level of documentation used to record capital transactions, ensuring that evidence produced is not duplicated but is fully annotated and cross-referenced such that it can form a stand along audit trail. This would have a significant impact on the time and resource required to produce working papers each year, which would help the Authority to prepare for the bringing forward of statutory deadlines in the next few years.	**Partially Implemented** The Authority has continued with the annual review of its Fixed Asset Register (FAR). As a result the Authority has reviewed the approach to componentisation within the NCC accounts, which has resulted in the implementation this year of the aggregation of component site assets within the FAR in line with existing CCC practices. This implementation has reduced the number of individual assets lines within the FAR by approximately 77%. This should reduce the volume of capital transactions and the level of documentation required to support them. However, during our audit testing of PPE we noted that a number of capital audit queries took a significant response time, across a number of contacts. There is scope to further embed this progress and reduce query resolution time.

Audit differences

This appendix sets out the audit differences.

The 2015/16 financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund as a result of the amendments.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements

Through our substantive testing over Property, Plant and Equipment, we identified £4.002m of ‘Assets Under Construction’ that were completed projects during 2015/16 and were therefore incorrectly classified as ‘under construction’. The Authority agreed with the misstatement and amended the financial statements, moving the £4m from PPE on the balance sheet to the Capital Adjustment Account. This affected the Comprehensive Income and Expenditure Statement also, with an increase to Net Cost of Services of £4m expenditure. This does not have a ‘bottom line’ effect on the General Fund as the transaction is reversed out in the Movement in Reserves Statement.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Pension Fund

Our audit did not identify any material misstatements. There were a number of minor presentational matters, which Officers have amended to ensure that the accounts are compliant with the Code.

Materiality and reporting of audit differences

For 2015/16 our materiality is £10 million for the Authority's accounts. For the Pension Fund it is £16 million.

We have reported all audit differences over £500k for the Authority's accounts and £900k for the Pension Fund, to the Audit Committee.

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 February, 2016.

Materiality for the Authority's accounts was set at £10 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 £0.5m 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.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £16 million which is approximately 0.86% of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £0.9million for 2015/16.

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 *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.

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 Northamptonshire County Council and Northamptonshire Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Northamptonshire County Council and Northamptonshire Pension Fund, 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.

Audit 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.

Audit Fees

Our scale fee for the audit was £137,660 plus VAT (£183,546 in 2014/15), and £24,285 plus VAT for the Pension Fund (£24,285 in 2014/15). This scale fee is in line with that highlighted within our External Audit Plan 2015/16. As also reported in our External Audit Plan 2015/16 to the Audit Committee in February 2016, we anticipate that additional audit fees will be charged in 2015/16 in relation to the specific risks we identified in, and undertook work on as part of, our audit plan, particularly around the VFM work. After completion of the audit we will discuss these and any other fee variations with Officers and update the Audit Committee as appropriate.

We undertook work relating to the Authority's subcontracting arrangements on projects funded by the Skills Funding Agency during the year. The fee for this was £4,812.50.

We will complete certification work over the Teacher Pensions Agency return in October 2016, and the anticipated fee for this work is £5,000 (£14,910 in 2014/15).

We also act as auditors to LGSS and LGSS Law Ltd. Our base audit fees for these entities are reported separately within their respective 2015/16 audit plans.

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