



# Annual Audit Letter 2016/17

**Northamptonshire County Council**

*(incorporating the Northamptonshire Pension  
Fund)*

[kpmg.com/uk](http://kpmg.com/uk)

October 2017



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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto: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](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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# Headlines

This Annual Audit Letter summarises the outcome from our audit work at Northamptonshire County Council in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



## Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 24 August 2017, ahead of the statutory deadline. This puts the Authority in a good position to meet the earlier deadline in 2017/18. Our unqualified opinion means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

We have made a number of recommendations to strengthen the Authority's financial environment. This includes three high-priority recommendations.



## VFM conclusion

We issued an adverse conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 24 August 2017. This means we are not satisfied that during the year the Authority had proper arrangements in place to take informed decisions and deploy its resources to achieve planned and sustainable outcomes for taxpayers and local people, to effectively support the sustainable delivery of strategic priorities and maintain statutory functions.

To arrive at our conclusion we reviewed the Authority's arrangements to make informed decision-making, sustainable resource deployment and working with partners and third parties.

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our assessment identified that financial resilience is a significant VFM risk to the Authority. The Authority faces significant ongoing challenges to achieve its savings. The Authority rated 54% of its savings proposals as red or amber. The Authority also had significant overspends in Children's (£18.1 million) and Adult Services (£16.9 million). Overspends are mitigated through one-off non-recurring measures. As part of the Authority's plan to address these issues, the Medium Term Financial Plan includes savings of £96.7 million derived from the Authority's 'Next Generation Council' model. Approximately £21.6 million of this was financed through the use of capital receipts, in line with new Department for Communities and Local Government (DCLG) guidance.

Our testing identified that whilst significant progress and structural changes have been made by the Authority, the actions do not fully mitigate this risk. We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore issued an adverse value for money conclusion.

# Summary of the 2016/17 audit

## Financial statements audit

We reported in our *External Audit Report 2016/17 (August 2017)* that work was still ongoing on the Authority's financial statements in the following key areas:

- accounts payable;
- public health expenditure; and
- the consolidation of the Authority's subsidiaries.

We are pleased to report that we have now concluded our work and have summarised our findings below. Our work has resulted in an additional high-priority recommendation.

### Accounts payable

In the prior year, we presented a report to Audit Committee in November 2016 outlining our findings over accounts payable, including instances of:

- duplicate payments;
- duplicate invoices;
- duplicate bank accounts / supplier details; and
- incorrect supplier details / data quality issues.

Subsequent to this, LGSS Internal Audit carried out a review of the Authority's Purchase to Pay system, and the accounts payable process was awarded a 'Substantial' level of assurance.

We used Data & Analytics techniques on the Authority's accounts payable to obtain assurance over key purchase controls. This work was initially carried out during the interim audit in February 2017. We were unable to complete this until the Authority provided a reconciliation between the data and the general ledger (see page 9 of our *External Audit Interim Report 2016/17*, dated May 2017). This was resolved in early August 2017.

The output of the D&A procedures indicated that for Months 1 to 9, approximately 21% (£157 million) of purchase orders had retrospective approval. This compares to 16% (£138 million) for the full year in 2015/16.

We have raised one high-priority recommendation in relation to this, see appendix two.

### Public health expenditure

During the course of our audit, the Authority's use of the Public Health Grant was brought to our attention by the Audit Committee. The Authority has provided a declaration to Public Health England that expenditure funded through the Public Health Grant complied with the grant conditions.

Our audit testing of a sample of transactions identified a

depreciation charge (£20,000) included against the grant which is not allowable under its terms. We also identified service expenditure (£240,000) which management confirmed should not have been charged. Both charges were replaced by additional and equal 'management cost' charges, which was not disallowed under existing grant conditions. The 'management cost' is a calculated figure based on budgeted spend. Management was unable to demonstrate conclusively that this management cost was based on actual management cost and grant activity levels.

Our review of expenditure funded through the Public Health Grant did not result in audit adjustments due to the retrospective changes made. Nonetheless, this should be viewed in the context of the overall audit of the financial statements (including the materiality level) and not necessarily a reflection of our view on qualifying spend against the grant conditions. We have raised one medium-priority recommendation in relation to this, see appendix two.

### Consolidation of the Authority's subsidiaries

Audit adjustments transacted within the subsidiaries were not reflected in the final consolidated Group Accounts. This uncorrected audit misstatement is not material to our opinion, but we are required to report this to you. This has been included in our summary of uncorrected audit misstatements on page 6.

We note that there is no mechanism within the consolidation process to ensure that subsidiaries' audit adjustments are subsequently reflected within the consolidated Group Accounts. We have raised a low-priority recommendation which is detailed in appendix two of this report.

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. We reviewed the Annual Governance Statement and Narrative Report. We concluded that they were not inconsistent with our understanding. Whilst we did not identify any issues we did raise a recommendation in our *External Audit Report 2016/17* for the Authority to further align its Narrative Report to the requirements of the Code and the Financial Reporting Council's guidance.

## Whole of Government Accounts

We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts ('WGA') by HM Treasury. We identified one error in respect of the Authority's reporting

# Summary of the 2016/17 audit

of transactions with Counter Parties. This was corrected by management. We reported that the Authority's pack was consistent with the audited financial statements.

We were unable to sign our WGA Assurance Statement prior to the deadline of 30 September 2017. This was due to delays in the provision of supporting information by management and delays in provision of additional audit evidence to support the values included in the Authority's consolidation pack. This will have an impact on the proposed audit fee, which we will discuss with management. We have raised a medium-priority recommendation in respect of the Authority's WGA processes, see appendix two.

## Recommendations update

In addition to the further recommendations described previously (one high, three medium, and one low), we have made further recommendations regarding:

- General IT controls: to strengthen policy compliance and access;
- School bank accounts: to ensure that Fund Account balances are recognised on the Authority's balance sheet.

See appendix two for further detail.

Below is a summary of the recommendations raised in year and outstanding recommendations from the prior years.

Recommendations summary				
Priority	Outstanding from prior years <sup>1</sup>	Previously raised 2016/17	Raised in this AAL 2016/17	Total
High	–	2	1	3
Medium	3	7	4	14
Low	1	–	1	2
<b>Total</b>	<b>4</b>	<b>9</b>	<b>6</b>	<b>19</b>

<sup>1</sup>Note: We provided an update on progress made against the prior years' recommendations in our August 2017 report.

Although the number of recommendations issued in 2016/17 is high in comparison to the previous year, this is a reflection of the high-risk profile of the Authority.

We will formally follow up these recommendations and report as part of our 2017/18 work.

## Certificate

We issued our certificate on 31 October 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local

Audit & Accountability Act 2014 and the Code of Audit Practice.

## Audit fee

Our PSAA scale fee for the 2016/17 audit of the Authority's financial statements is £137,660, and the PSAA scale fee for the Pension Fund is £24,285. We have discussed and agreed additional fees with management due to additional costs incurred. However, the additional fee in relation to the final accounts audit is still subject to PSAA determination and approval. See further detail in appendix four.

In addition, we have also completed other services for the Authority, with fees agreed to date totaling £28,725. See further detail in appendix four.

# Summarised audit misstatements

We have summarised below the significant adjustments identified during our audit of the Authority's Statement of Accounts:

- a. We identified one material audit adjustment which was corrected by management. This relates to a technical adjustment relating to the accounting treatment of the Authority's flexible use of capital receipts and resulted in a £21 million increase in the Authority's deficit on the provision of services. The use of capital receipts against revenue expenditure is subsequently reflected within the Authority's Movement in Reserves Statement. This audit adjustment has no impact on the Authority's General Fund.
- b. We identified three audit differences above our reporting threshold, which we are required to bring to the attention of those charged with governance. These have not been adjusted by management. The aggregate of these differences is below our £8 million materiality threshold. Of the three audit differences identified, two have been previously reported in our *External Audit Report 2016/17*. The additional audit difference relates to adjustments identified by the subsidiaries' audit team which were not subsequently reflected within the Authority's consolidated group accounts. We have raised a recommendation in relation to this, see appendix two.

## Summary of corrected and uncorrected audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
<b>A. Corrected audit differences</b>						
1	Dr CIES (Cost of Services) 21,037  Cr CIES (Other Comprehensive Income and Expenditure) (21,037)					The Authority's flexible use of capital receipts should be a movement within the Movement in Reserves statement and should not be taken into the CIES.
	-	-	-	-	-	<b>Total impact of corrected audit differences</b>
<b>B. Uncorrected audit differences</b>						
1			Dr Property, Plant & Equipment 977	Cr Short Term Creditors (977)		Adjustment in respect of capital invoices not accrued.
2	Dr Gross Expenditure 1,601	Cr Capital Adjustment Account (1,601)  Dr Capital Adjustment Account 1,601		Cr Short Term Creditors (1,601)	Dr Capital Receipts Reserve 1,601  Cr General Fund (1,601)	Adjustment in respect of Revenues Expenditure Funded from Capital under Statute not accrued.
3	Dr Other operating expenditure 59	-	Cr Short Term Debtors (881)	Dr Short Term Creditors 822	-	Adjustments arising from the consolidation process.
	<b>Dr 1,660</b>	<b>-</b>	<b>Dr 96</b>	<b>Cr (1,756)</b>	<b>-</b>	<b>Total impact of uncorrected audit differences</b>

# High-priority issues and recommendations

During our 2016/17 audit work we identified three high-priority recommendations. Two of these recommendations were reported in our *2016/17 Interim Report* and have been included below for the Audit Committee's reference. One high-priority recommendation was identified upon the completion of our data analytics work on the Authority's accounts payable process and is included within appendix two.

High priority recommendations address the 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) adequately a risk.

H

### 1. Streamlining the accounts production and closedown process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements by 31 May 2018 for the financial year ending 31 March 2018. In preparation for this tighter timescale, the Authority has agreed to streamline its approach to the accounts production process. Key to this is the new LGSS Accounts Production team, which also oversees the process for Cambridgeshire County Council, Northampton Borough Council, and Milton Keynes Council.

As part of this, we issued our required documents list in December 2016. We have also followed this up and have agreed with Management that we will carry out testing over the Authority's capital additions and disposals given the focus on capital flexibilities.

Nonetheless, we wish to highlight the following:

- We note that the Authority has positively responded and provided the majority of items requested, with the exception of Journals. As a result we were not able to test Journals as planned at interim, and have agreed with Management that this will now be deferred to the year end audit.
- We were unable to carry out testing of capital additions and disposals as initially agreed with Management.

Both of these issues have had knock-on effects on our agreed audit plan. Work will now be performed during the final audit which will place additional pressure on both the Authority and the audit team. The delays and additional work now required during the year-end audit will have an associated cost to the Authority. This will be discussed and agreed with management and the Audit Committee on the completion of our audit.

#### Recommendation

The earlier closedown process requires a fundamental redesign of the Authority's financial reporting process throughout the year. Many of the transactions associated with the closedown process will need to become a critical part of a quarterly or even monthly process, such as capital transactions and accounting for accruals. The Authority will need a fundamental 'root and branch' review of its approach to identify these critical transactions and embed these in its quarterly or monthly closedown process.

#### Management response

With the Integrated Closedown team only fully coming into existence in December 2016 following the Finance Directorate restructure, time has been limited to fully undertake a review and change processes and approach to the closedown arrangements as the team were straight in to the planning and preparation phase for the 2016/17 accounts. However there are some areas of progress where convergence and knowledge sharing has been achieved such as the joint review of new Code requirements and accounting policy changes, sharing formats and approach to the new CIES and EFA statements and developing a consistent format for the Narrative Report across the Councils. It should also be noted that the capital closure is ahead of timetable compared to previous years.

The recommendation is however agreed as this is a key piece of work that needs to happen. The difficulty is in doing this alongside the actual closure of the 2016/17 accounts as it is the same staff that would need to be involved in any kind of review. An initial workshop is scheduled in June with representatives across all

*(continued)*

*(continued)*

the authorities that the Integrated Closedown team support to pull together options and best practice to achieve earlier closure. The move to undertaking capital transactions during the year will be part of this.

What would also be helpful to management is the way in which KPMG are planning to change their audit approach to support the local authority to achieve the earlier closure.

**Owner**

NCC S151 Officer and Head of Integrated Finance Services.

**Deadline**

30 September 2017

H

## 2. Governance of 'Next Generation Council' federated vehicles

The Board of First for Wellbeing ('FfWB') has approved its governance structure in February 2017 in relation to audit matters following input from LGSS Internal Audit and KPMG.

The confirmation of FfWB's tax position with HMRC is still outstanding. We are aware that the Authority has initiated discussion in relation to VAT and corporation tax.

Whilst the Authority has implemented our 2015/16 recommendation over the governance and review processes for producing the Financial Statements, we have still identified deficiencies in the overall governance arrangements. Specifically, we note that the Authority has not:

- considered the full Board and committee structure;
- confirmed the company's tax position with HMRC; and
- considered the governance of the NCC Group.

This list is not exhaustive and is driven by the requirement that the Authority should separate its role as commissioner and the principal shareholder of the company. This consideration needs to be embedded within the 'Next Generation Council' (NGC) process instead of a reactive approach that the Authority currently adopts.

Going forwards, Northamptonshire Adult Social Services Limited ('NASS') is due to commence trading from September 2017 with a forecast turnover of £213 million. This is significantly larger than the Authority's earlier vehicles. The Authority should ensure that robust governance arrangements are in place that incorporate the requirements of FfWB and the Group.

### Recommendation

The Authority needs to ensure that robust governance arrangements are in place for the 'Next Generation Council' vehicles prior to their set up. These arrangements should reflect the Authority's role as commissioner but also as principal shareholder, in particular where the vehicles are earning private income, increasing the risk to the Authority. Specific areas which the Authority should also consider have been listed above.

In the context of setting up a new trading company, the Authority should ensure it has considered all elements of the vehicle's governance framework during the set up process to ensure the company has robust governance arrangements in place when it commences trading.

### Management response

Appropriate governance arrangements have been in place since the formation of First for Wellbeing with NCC Group having an appropriate commissioning structure. In respect of NASS the governance arrangements have been in place and mirror those of First for Wellbeing, however these will be subject to review once NASS is operational.

In addition the response to the First for Wellbeing tax clearances is expectedly imminently after correspondence with and chasing of HMRC. The authority has learnt from the experience of First for Wellbeing and will be requesting any required tax clearance from HMRC prior to NASS becoming operational. This work is in progress.

#### Owner

NCC CFO -Overall governance arrangements  
Head of Integrated Finance Services -HMRC tax clearance

#### Deadline

November 2017 -Overall governance arrangements  
August 2017 -HMRC tax clearance

# Additional issues and recommendations

Following the completion of our outstanding audit work we have raised six additional recommendations. These are in addition to the nine recommendations raised so far.

- |  |  |   |
|--|--|---|
| <p><b>H</b> <b>High priority</b> - 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>M</b> <b>Medium priority</b> - 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>L</b> <b>Low priority</b> - Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.</p> |
|--|--|---|

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## **H** 1. Retrospective Purchase Orders

We used Data & Analytics techniques to test all transactions within the Authority's accounts payable balance up to Month 9. We identified 7,677 instances (21% by number) of retrospective purchase orders with an estimated value of £157 million. This compares to 10,614 instances (16% by number) for the full year in 2015/16, with an estimated value of £137 million. Retrospective orders were identified where the invoice date predates the purchase order date.

Retrospective purchase orders indicate that orders may not have been approved appropriately prior to the Authority purchasing or receiving a good or service. Whilst these orders were approved retrospectively and unlikely to give rise to a material misstatement, the frequency of retrospective purchase orders indicates a significant weakness in the Authority's purchasing process. The retrospective approval of these purchases does not fully mitigate the risks that:

- goods or services are purchased without prior authorisation from a budget holder;
- goods or services are sourced from suppliers outside of the Authority's approved supplier framework;
- value for money may not be achieved through procurement; and
- fraud or error occurs, for example, through collusion with suppliers, the use of fraudulent suppliers, or the inflation of sale prices.

We note that the Authority's Internal Audit service awarded a 'Substantial' level of assurance to the purchase ordering process within its *Purchase to Pay – NCC* report (dated April 2017).

### Recommendation

The Authority should carry out a detailed analysis of all instances of retrospective purchase orders. The analysis should help the Authority understand the cause and identify key areas/departments where the use of retrospective purchase orders is most common. This exercise will also help the Authority identify key control or process weakness.

The Authority should seek to provide appropriate training to raise awareness of its own purchasing policy amongst staff. Where retrospective purchase orders are raised, purchasers and the relevant budget holder should be challenged and required to justify the use of retrospective purchase orders. Instances of retrospective purchase orders should be monitored as a Key Performance Indicator (KPI) and budget holders who persistently oversee retrospective purchase orders should be held to account. Senior management should report this KPI to the Audit Committee on a regular basis.

Management should work with LGSS Internal Audit to identify appropriate testing strategies to provide the assurance level which the Authority needs.

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### Management response

A review of retrospective purchase orders will be undertaken to identify the cause and the service areas where this may be prevalent to understand why it is happening and whether the issue is one of compliance or the fact that existing processes may not be appropriate for certain services.

The authority will communicate the requirements of the purchasing policy and process to budget holders through channels such as the covering note that sets out the monthly monitoring deadlines for budget holders and wider channels such as Informer.

The authority will consider reporting on the retrospective orders as recommended and management will liaise with Internal Audit to identify the necessary testing strategies required.

#### Owner

Head of Financial Transactions

#### Deadline

31 March 2018

M

### 2. General IT Controls

We tested the Authority's general IT controls as part of our reliance on Oracle, which runs the Authority's general ledger system. We found the following issues:

- individuals who have left the authority have accounts currently active on Oracle;
- in our sample testing, system access was still granted for one user previously flagged for access revocation; and
- the Authority's password policy is not enforced on Oracle.

The findings above potentially expose the Authority to fraudulent IT activity.

#### Recommendation

The Authority should ensure compliance with its IT policy. Revocation of access for both leavers and users marked for access removal should be actioned immediately.

#### Management response

##### Accepted.

The Authority does have IT policies and existing processes that determine access and revocation requirements however the instances identified from the audit will be reviewed. In addition the access requirements and policies under the authority's new ERP Gold system have been reviewed to ensure such processes are automated as much as possible. The responsibility for the access rights to ERP Gold is also being transferred from IT to the Financial Systems team.

##### Owner

Head of Business Systems and Change

##### Deadline

31 March 2018

M

### 3. Public Health Grant

From our review of the Public Health Grant, we identified and challenged a number of transactions against the scope of allowable expenditure as defined by the grant conditions. These transactions were subsequently replaced by an overarching 'management cost', which is a calculated figure based on budgeted spend for the year. We note that this is not disallowed under the terms of the grant. However, there does not appear to be a robust audit trail between the levels of management cost charged to the grant and the actual costs of managing the grant or activity levels.

There is a Revenue Outturn (RO) assurance statement signed by the Authority prior to the audit which declared that the amounts claimed are eligible expenditure on public health. It is unclear how this assurance can be provided given the lack of a robust audit trail.

#### Recommendation

Whilst we are satisfied that the Public Health Grant is not materially misstated in the context of our overall financial statements audit, the Authority should implement the following over the use of the Public Health Grant:

- review the management charge methodology to ensure that the amount charged is robustly evidenced, justified, and can be linked to activity levels or actual management costs incurred;
- timely review by management of expenditure funded through the grant to ensure it is appropriate and meets the grant's terms and conditions; and
- the Authority should engage an appropriately qualified independent accountant or an external auditor in order to demonstrate compliance with the terms and conditions of the grant.

#### Management response

##### Partially accepted.

The Authority will review the underlying methodologies and evidence for recharging costs to the Public Health Grant for 2017/18, which will incorporate a management review process.

The aspect of the recommendation that is not accepted however is the need to engage an independent accountant or external auditor to demonstrate compliance with the terms and conditions of the grant. The Authority considers that the existing arrangements whereby returns are made to Public Health England and signed off by the Director of Public Health provide sufficient oversight and third party challenge to the authority's submission.

##### Owner

CFO / S151 Officer

##### Deadline

31 March 2018

M

### 4. Whole of Government Accounts

As part of the Whole of Government Accounts (WGA) exercise, the Authority is required to submit its initial Data Collection Tool (DCT) by 30 June 2017. The Authority did not meet this deadline due to capacity issues. This resulted in the Authority's exclusion from the initial mismatch list, and subsequently led to a delay in our ability to start the audit work as initially planned.

As part of undertaking our WGA procedures, we noted the following:

- delays in receiving audit evidence to support the queries raised as part of the WGA work programme. This delayed the conclusion of our WGA audit work;
- the Authority did not complete and sign off the management review checklist prior to submitting the stage 1 DCT pack. The checklist provides assurance to management, HM Treasury and ourselves that proper procedures are in place for providing WGA data. This checklist was signed on 19 September 2017, over a month following the submission of the stage 1 DCT pack; and
- Our audit testing identified an instance where inappropriate transactions were included against a counterparty.

The issues above have resulted in the Authority missing the DCT submission deadline of 30 September; the Authority also missed the submission deadline in 2015/16. Our WGA Assurance Statement was submitted on 31 October 2017 following the completion of our testing.

#### Recommendation

In light of the change to the statutory deadlines 2017/18 the Authority should review its timetable to complete the DCT in order to achieve the stage 1 submission deadline.

This revised timetable should ensure the Closedown Team has sufficient understanding of the mismatch process to ensure mismatches to be followed up appropriately. The Authority should ensure there is appropriate Closedown Team capacity to finalise audit queries on the DCT in order to submit the signed WGA assurance statement by the statutory deadline.

#### Management response

##### Accepted.

The arrangements and timetable for the Authority to meet the earlier closure deadlines for 2017/18 will incorporate the WGA processes to meet the required deadlines. Also as part of the ERP implementation the ability to automate aspects of the WGA from the system is being considered, for example identifying counter parties within the ERP system itself. The resource and capacity of the team will be kept under review and discussed with the CFOs in order to achieve the earlier deadlines in future years.

##### Owner

Head of Integrated Finance

##### Deadline

31 March 2018

M

### 5. School Bank Accounts not recognised

We obtained bank confirmation which indicated that 21 schools' Fund Accounts were not recognised on the Authority's balance sheet, therefore understating the Authority's cash balance. The total value of these Fund Accounts was £267,452. This was below our adjustment threshold. However, this indicates that there is a deficiency with the Authority's process for identifying and reporting school accounts.

#### Recommendation

The Authority should ensure its reconciliation is completed against a list of all schools' bank accounts. This should be reconciled on a monthly basis which will help mitigate the risk that school accounts are not identified or recognised on the Authority's balance sheet.

#### Management response

##### Accepted.

The reconciliation process will be reviewed and improved where necessary to ensure all schools bank accounts are identified and included in the Authority's balance sheet.

##### Owner

Head of Integrated Finance

##### Deadline

31 March 2018



### 6. Consolidation of subsidiaries

The audit of the Authority's three current subsidiaries has resulted in a cumulative audit adjustment of £881,000. This has not been reflected within the Authority's 2016/17 Group accounts and gives rise to an unadjusted audit difference of the same amount. This is above our adjustment and reporting threshold, see page 6. We understand that the Authority's Group accounts production process does not take into account audit adjustments within its subsidiary companies which may be identified by subsidiary auditors. Going forwards, there is a risk that material audit adjustments may not be accurately reflected within the Authority's Group accounts.

#### Recommendation

The Authority should review its consolidation process and ensure that this includes a review of post-audit adjustments.

#### Management response

##### Accepted.

The decision was made not to adjust for these audit differences on the basis that they were not material to the NCC accounts. However the recommendation is accepted and the process for identifying and incorporating audit adjustments within the Council's subsidiaries will be reviewed for 2017/18 accounts.

##### Owner

Head of Integrated Finance

##### Deadline

31 July 2018

## Appendix three

# Summary of reports issued

This appendix summarises the reports we have issued since our Annual Audit Letter published in 2016.

These reports can be accessed via the Audit Committee pages on the Authority's website at <https://cmis.northamptonshire.gov.uk/cm5live/Committees/>

### External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority and Pension Fund financial statements. We also set out work to be undertaken to support the VFM conclusion.

2017

Jan

Feb

Mar

Apr

## Audit Fee Letter

The Audit Fee Letter set out the proposed audit work and draft fee for the 2017/18 financial year.

## Interim Audit Report

The Interim Audit Report summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

## Pension Fund External Audit Report

The Pension Fund External Audit Report summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

## Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

May

Jun

Jul

Aug

Sep

Oct

Nov

## External Audit Report

The External Audit Report summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

## Auditor's Report

The Auditor's Report included our audit opinion on the financial statements (including the pension fund accounts) along with our VFM conclusion.

# Audit fees

To ensure transparency about the extent of our fee relationship with the Authority, we have summarised below our 2016/17 audit fee.

### External audit

#### *The Authority*

Our proposed fee for the 2016/17 audit of Northamptonshire County Council is £204,660. This comprises a planned scale rate fee of £137,660 and a further £67,000.

Of this £67,000:

- £17,000 has been approved by the Public Sector Audit Appointments (PSAA) and relates to work carried out in October 2016 in relation to the Authority's *Next Generation Council* to help inform our VFM opinion.
- The remaining £50,000 is still subject to PSAA determination. This proposed fee relates to:
  - additional work required on the Authority's financial statements reflecting the high-risk profile of the Authority and in response to significant risks identified in the financial statements audit. These were communicated to those charged with governance and required additional specialist and senior auditor time in concluding on these risks;
  - additional work required in concluding on the Authority's VFM arrangements as a result of the Authority's financial position and the financial resilience significant risk identified; and
  - delays during the audit process due to information and audit evidence not provided by management, resulting in additional senior time to complete the audit testing.

We have encountered further delays in relation to the audit of the Authority's WGA submission. We are in the process of discussing fees to meet the additional costs we incurred to certify the Authority's WGA submission.

#### *The Pension Fund*

Our final proposed fee for the 2016/17 audit of the Pension Fund was £31,927. This compares to a planned fee of £24,285. The reasons for this increase are:

- additional work over the triennial valuation of the fund; and
- additional work, which was not included in our initial plan, namely our fee for external assurance letter to admitted body auditors.

Our proposed additional fee of £7,642 for the Pension Fund is still subject to final determination by the PSAA.

### Other services (non-PSAA services)

We charged £4,725 for additional audit-related services for the certification of the Authority's Skills Funding Agency (SFA) subcontractor compliance which is outside of the PSAA's certification regime.

We are due to undertake the certification of the Authority's Teachers' Pension Return based on hourly rates. Our work is scheduled to commence in October 2017.

We have carried out non-audit work in relation to additional savings opportunities and income benchmarking. Our fee was £24,000 and is not related to our responsibilities under the Code of Audit Practice.

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