KPMG
cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Northampton Borough Council

September 2015

Contents

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact **trevor.rees@kpmg.co.uk**, , 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, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Northampton Borough Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- The work to support our 2014/15 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 2014/15*, presented to you in March 2015, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during March 2015 (interim audit) and July 2015 (year end audit).

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

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work and we included early findings in our *Interim Audit Report/letter 2014/15*. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified an omission, below materiality but above our reporting threshold, in relation to the under accrual of expenditure within the Group Accounts. The original error was identified in the audit of the Northampton Partnership Homes (NPH) Accounts and occurred as a result of NPH accounting for creditor accrual balances in the incorrect financial year. The total value of the error is £557k (£540k relating to capital transactions and £17k relating to revenue transactions). The adjustment made to the Accounts of NPH feeds directly into the Group Accounts and as such the Authority have made a corresponding adjustment in their Group Accounts. There is no net impact from this adjustment on the main financial statements. The error identified also impacts upon the Authority's single entity accounts. NPH failed to notify the Authority of expenditure made in 2014/15 which should have been accrued for in the 2014/15 draft Accounts. NPH have an agreement with the Authority whereby appropriate capital spend is matched. NPH's failure to notify the Authority of this expenditure resulted in the Authority being unable to match this spend and also created an omission of all accounting transactions relating to this in the Authority's single entity accounts. The total value of the omission is £557k, of which there is one element above our reporting threshold. This is £540k and relates to capital expenditure. The impact of the adjustment on the Authority statements is an increase in the PPE balance of £540k to capitalise the additional spend on council dwellings, an increase in the short term creditor balance of £540k to recognise the additional spend match liability with NPH, an increase in unusable reserves (capital adjustment account) and a decrease in usable reserves (major repairs reserve) of £540k to recognise the additional capital financing used in finance capital expenditure. The adjustment would also impact upon a number of disclosures within the Authority accounts, for example the housing revenue account and capital disclosure notes. Due to the complexity of the amendments and the value of the adjustment being immaterial, the Authority have opted not to make the amendment. Therefore we raise it here in our report to bring it to members attention as an uncorrected item. Further details on this adjustment and the uncorrected item can be found at Appendix 3. We have raised three recommendations, all priority 2 (on a scale of 1-3, where 1 is high and 3 is low) in relation to the matters highlighted above, which are summarised in Appendix 1.

Headlines

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

Key financial statements audit risks	We identified the following key financial statements audit risk in our 2014/15 External audit plan issued in March 2015. **Group Accounts:** The Authority has undertaken a detailed review of the relationship that exists with NPH and concluded that NPH is a subsidiary of Northampton Borough Council. The Authority have produced Group Accounts for the first time this year. Our review identified that the judgements reached by the Authority to produce group financial statements were reasonable and in line with the *CIPFA code.* However a small number of presentational amendments were required to the Group Account note in relation to the pension liability disclosures. The presentation of the Group CIES was also amended to report gross income and expenditure. The audit of NPH Accounts also identified one issue in relation to inadequate expenditure cut off procedures where NPH failed to correctly accrue their 2014/15 expenditure. Due to the nature of the relationship between NPH and the Authority, this resulted in the Authority also failing to appropriately accrue expenditure in their own accounts, as outlined in the audit adjustments section above. We have worked with Officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and good quality supporting working papers. The Authority effectively dealt with the challenge of producing Group Accounts for the first time and the additional work required to complete the audit of these accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Completion	At the date of this report our audit of the financial statements is substantially complete. Work is still ongoing on the internal review process and we are still awaiting the external audit confirmation from Grant Thornton in respect of their audit of NPH. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We identified no VFM risks in our External audit plan 2014/15 issued in March 2015, and no further risks were identified during our audit. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015

Financial Statements - Proposed opinion and audit differences

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 7 September 2015.

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 5 for more information on materiality) level for this year's audit was set at £4.5million. Audit differences below £225k are not considered significant.

We did not identify any material misstatements in the Group Accounts. We identified one non material error which has been adjusted in the Group Accounts by management and a number of presentational issues that have been amended by management.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund and HRA for the year and balance sheet as at 31 March 2015.

The net impact on the General Fund and HRA as a result of audit adjustments is £nil as at 31 March 2015.

We also identified one non material error in the single entity accounts which has not been adjusted by management. Further details of this can be found at Appendix 3.

Group Movements on the General Fund 2014/15

£m	Pre-audit	Post-audit	*Ref (App.3)*
Surplus on the provision of services	10,395	10,395	
Adjustments between accounting basis & funding basis under Regulations	(13,968)	(13,969)	
Transfers from earmarked reserves	1,746	1,746	
Decrease in General Fund	**(1,827)**	**(1,827)**	

Group Balance Sheet as at 31 March 2015

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	509,188	509,188	
Other long term assets	55,411	55,411	
Current assets	91,135	91,692	*[1]*
Current liabilities	(34,281)	(34,838)	*[1]*
Long term liabilities	(387,116)	(387,116)	
Net worth	**234,337**	**234,337**	
General Fund	5,470	5,470	
Other usable reserves	78,365	78,365	
Unusable reserves	150,502	150,502	
Total reserves	**234,337**	**234,337**	

Financial Statements (continued) - Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

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

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- We identified that other grant income credited to taxation and non specific grant income disclosed in note 38 was inconsistent with the working paper provided. An adjustment of £509k has been made to the Accounts so that the note is consistent with the underlying records. In addition, the Decent Homes Grant was mis-classified as a non ring fenced grant in note 12 (taxation and non specific grant income). This has been re-classified as a capital grant and contribution. An adjustment will be made and impacts upon the grant income disclosure notes.
- In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. Presentational adjustments were also identified to the Group Accounts disclosures.
  We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Financial Statements (continued) - Significant 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 this risk.

In our *External Audit Plan 2014/15*, presented to you in March 2015, we identified the significant risks affecting the Authority's 2014/15 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.

Significant audit risk	Issue	Findings
	**Risk** The Authority assessed whether they were required to produce Group Accounts for the first time this year, in order to consolidate its new subsidiary company, NPH. The Authority needed to ensure that they undertook a detailed and controlled review of the relationship that exists with NPH and assessed whether consolidation is required, in order to ensure that the financial statements are prepared in accordance with the requirements of the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15 (the Code).*	The Authority undertook a detailed review of its relationship with NPH and concluded that as a subsidiary of Northampton Borough Council it would produce Group Accounts for the first time this year. The Authority have undertaken a structured approach to the production of Group Accounts and a good audit trial was retained to support the disclosures made. Our testing identified a small number of presentational amendments to the Group Accounts. In summary these were: ▪ Disclosure of gross income and gross expenditure in CIES. ▪ Correction of Group defined benefit pension scheme disclosures at note 56 to include the Authority's cost of service and the Group' fair value of plan liabilities. Grant Thornton audit the financial statements of NPH. Their audit identified one error within the accounts of NPH in relation to accrued expenditure balances being recorded in the incorrect financial year (£557k). The Authority have agreed to amend the Group Accounts to correct this. The error identified above also impacts upon the Authority single entity accounts. NPH incorrectly excluded capital accruals valuing £540k from their draft Accounts. The Authority were notified of these adjustments during Grant Thornton's audit of NPH accounts. The impact of the adjustments are detailed at Appendix 3.

Financial Statements (continued) - Significant risk

In our *External Audit Plan 2014/15* 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.

Areas of significant risk		Summary of findings
Management override of controls	Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. 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. 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.
Fraud risk of revenue recognition	Audit areas affected ■ None	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 2014/15 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.

Financial Statements (continued) - Accounts production and audit process

The Authority has a well established and good accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
Completeness of draft accounts	We received a complete set of draft accounts on 25 June 2015. The Authority have made a small number of presentational changes to the accounts presented for audit, including the Group accounts however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit on 25 February 2015. The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*. Management also responded efficiently to some additional requests made at the start of the audit.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Financial Statements (continued) - Accounts production and audit process

The Authority has a well established and good accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Element	Commentary
Internal audit	Responsibility for internal audit services is split between PWC and LGSS. It appears that the process for splitting areas of responsibility has been inconsistent and in some cases the areas of internal audit work which we had intended to rely upon had not been delivered. This resulted in the completion of additional controls testing as part of our year end audit programme.
Group audit	To gain assurance over the Authority's group Accounts, we placed reliance on work completed by Grant Thornton on the financial statements of NPH. There is one specific matter to report pertaining to the group audit. Grant Thornton identified one error in the accounts of NPH whereby accrued expenditure balances to a value of £557k had been accounted for in the wrong financial year. This error will be corrected in the NPH accounts and the Authority's Group Accounts will be amended to reflect this adjustment as a result. The error identified also impacts upon the Authority single entity accounts. NPH failure to notify the Authority of this expenditure resulted in the Authority being unable to match this spend and created an omission of all accounting transactions relating to this is the Authority single entity accounts. The value of the error is not material and the due to the complexity of the adjustment to correct, the Authority has chosen not to amend their single entity accounts in relation to this. The details of these adjustments are outlined at Appendix 3.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14*.

Financial Statements (continued) - Completion

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

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

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Northampton Borough Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 Strategic Finance Manager for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion. We are seeking specific management representations over property, plant and equipment valuations and the sale of the Egyptian statue, Sekhemka.

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2014/15 financial statements.

Section four

VFM conclusion

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

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

Background

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

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

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

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

Work completed

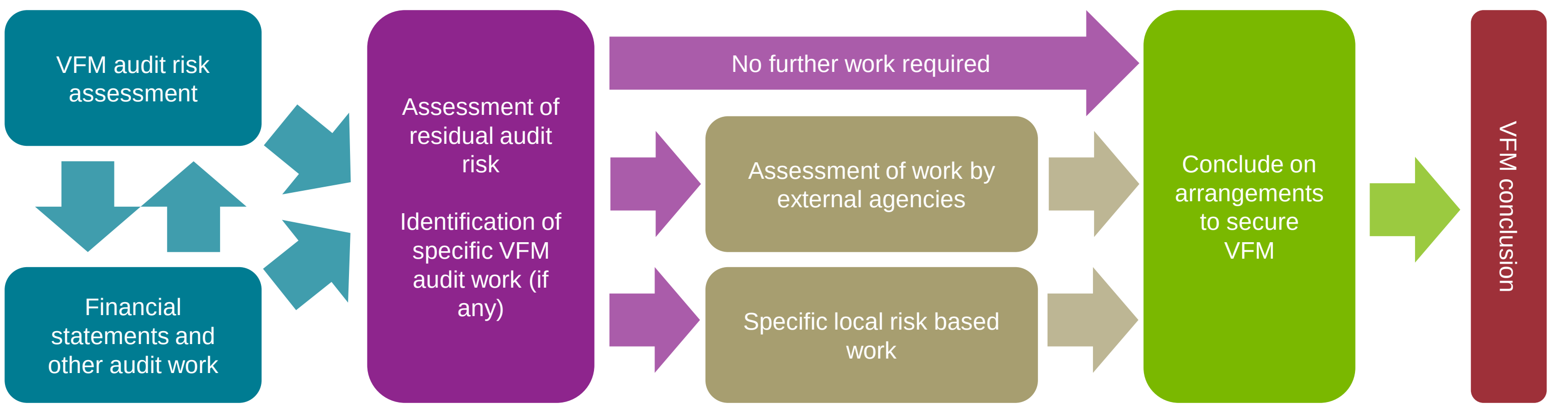
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

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

Conclusion

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

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



Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
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
1	❷	**Retrospective raising of purchase orders** Testing identified that purchase orders need to be raised prior to the Authority committing itself to purchasing goods/services. All purchases need to be authorised, and this authorisation is only carried out at purchasing order stage for those items that require a purchase order. We noted that £7.7 million worth of expenditure in year was not appropriately authorised prior to placing an order with a supplier. In these cases purchase orders were raised retrospectively which potentially opens the Authority to potential fraud or impropriety and is contrary to the Authority's policy. **Recommendation** The Authority should ensure that purchase orders should be raised for the purchasing of goods and services through the purchase order process (where appropriate), prior to the Authority committing itself to the purchase. Reports should be run on a regular basis to identify all non compliance and take appropriate follow up action.	**Agreed.** This amount of expenditure (£7.7 million) represents approximately 3% of the value of all invoices raised in 2014/15. This indicates a good level of financial management with 97% of purchases requiring a purchase order being processed appropriately. All purchase made were from approved budgets and were subject to appropriate segregation of duties for final authorisation of payment. The Authority will review this level of efficiency and continue to provide financial management training to further improve procurement compliance. **Responsible Officer: Glenn Hammons** **Due Date: Quarterly review**

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response
2	2	**Northampton Partnership Homes** The audit of NPH Accounts identified that cut off procedures are not appropriate resulting in a failure at NPH to correctly account for accrued expenditure. NPH had also failed to notify the Authority of capital spend valuing £540k made in 2014/15 which should have been disclosed in the Authority Accounts. **Recommendation** The Authority should re-visit the protocol for notification of transactions at NPH and ensure that this clearly includes a procedure for correctly accounting for year end transactions. Introduce improved communication between NPH and the Authority to ensure that notification of all transactions is undertaken in a timely, accurate and complete manner.	**Agreed.** NPH came into existence on 5 January 2015. During the early stages of its creation, new staff and processes have been put in place across the board. The Authority and LGSS will continue to improve communications and processes during 2015/16 to ensure financial management is embedded within the new organisation. **Responsible Officer: Glenn Hammons** **Due Date: 31 March 2016**
3	2	**Internal Audit** Responsibility for internal audit services is split between PwC and LGSS. It appears that the process for splitting areas of responsibility has been inconsistent and in some cases the areas of internal audit work which we had intended to rely upon had not been delivered. This resulted in KPMG having to undertake and complete additional controls testing as part of our year end audit programme. **Recommendation** The Authority should ensure that it undertakes a thorough assessment of both internal audit providers annual audit plans for 2015/16 to ensure that appropriate assurance and systems coverage is provided during 2015/16.	**Agreed.** The Authority has set up regular meetings with LGSS and PWC Internal Audit team to ensure that the work coverage supports the requirements of KPMG. The Monitoring Officer is currently undertaking this review and Audit Committee are engaged to ensure requirements are met. **Responsible Officer: Francis Fernandez** **Due Date: 31 March 2016**

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14.*

Number of recommendations that were:	
Included in original report	2
Implemented in year	2
Remain outstanding	0

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

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £225k.

It is our understanding that all of these will be adjusted.

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.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2015. It is our understanding that these will be adjusted.

	Impact					
No.	Group Income and Expenditure Statement	Group Movement in Reserves Statement	Group Assets	Group Liabilities	Group Reserves	Basis of audit difference
1	Dr Housing Revenue Account Expenditure £557k; Cr Housing Revenue Account Income £557k		Dr Debtors £557k	Cr Creditors £557k		Failure of NPH to record accrued expenditure in the correct financial year.
	£nil		**Dr £557k**	**Cr £557k**		**Total impact of adjustments**

Appendix 3: Audit differences (continued)

The cumulative impact of uncorrected audit differences is £540k.

This is below our materiality level of £4.5 million.

Uncorrected audit differences

Grant Thornton audit the financial statements of NPH. The 2014/15 audit identified one error (£557k) within the accounts of NPH in relation to accrued expenditure being recorded in the incorrect financial year. The Authority have agreed to amend the Group Accounts to correct this error. (see previous page).

The error identified above also impacts upon the Authority's single entity accounts. NPH incorrectly excluded capital accruals valuing £540k from their draft Accounts. NPH also failed to notify the Authority of the transactions which related to 2014/15 and as such the corresponding adjustments were not made in the Authority draft financial statements. The Authority were notified of these adjustments during Grant Thornton's audit of NPH accounts.

Due to the complexity of the adjustments required and the fact that the value is below materiality, the Authority have decided not to adjust the 2014/15 Accounts. The following table sets out the uncorrected audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2015.

	Impact					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1			Dr PPE £540k	Cr Creditors £540k	Dr Usable Reserves £540k Cr Unusable reserves £540k	Omission of 2014/15 capital creditor balances in the 2014/15 Authority single entity Accounts as a result of failure of notification by NPH.
			Dr £540k	**Cr £540k**	**£nil**	**Total impact of uncorrected audit differences**

Appendix 4: Declaration of independence and objectivity

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

Requirements

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

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the 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 this. These matters should be discussed with the Audit Committee.

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

General procedures to safeguard independence and objectivity

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

Appendix 4: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Disclosure of action concerning tax engagement

KPMG member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics. In addition, the UK firm and our professionals are also required to comply with the requirements of the APB Ethical Standards. We also adhere to the Public Sector Audit Appointment's (PSAA) specific requirements regarding non-audit services.

These professional standards require that where the firm has determined that a breach of an audit independence standard has occurred, we discuss this and the actions we have taken or propose to take with you as soon as possible, communicate with you in writing all matters discussed and obtain your concurrence that action can be, or has been, taken to satisfactorily address the issue. This section of the report summarises such an instance requiring action.

In January 2012 the Authority engaged KPMG to provide services to assist support you in preparing and submitting to HMRC a retrospective four year claim for overpaid output VAT on sports and leisure services provided by the Council. This included submitting a notice of appeal to the VAT and Duties Tribunal to be stood behind another case pending litigation on this issue.

We originally agreed to perform this work for the Council on a contingent fee basis, i.e. our fee would not have become due until the VAT repayment was received from HMRC by the Council. Subsequently, KPMG LLP was appointed as auditor of the Authority for the 2012/13 year of account and subsequent financial years.

Prior to 2010, the APB Ethical Standards did not prohibit such contingent fee arrangements, however in 2010 the standards were changed and paragraph 95 of APB Ethical Standard Number 5 now provides that an audit firm cannot provide services on a wholly or partly contingent basis where the outcome of those services is dependent upon the proposed application of tax law which is uncertain or has not been established. As the tax law applying to the subject matter of this engagement was and remains uncertain, following KPMG LLP's appointment as auditor the fee basis should have been revised to remove the contingent element in order to comply with this requirement. Action was therefore required to ensure compliance with the ethical standards. We have therefore proposed that a revised fixed fee of £20,000 (excluding VAT) is charged and the success fee element of our remuneration is removed. PSAA is fully aware of this position and in line with its usual rules on the acceptance of non-audit work we will be seeking its approval for this fee.

This position was identified as our firm undertook a special exercise to ensure that any grandfathered tax contingent fee arrangements that were entered into with audit clients prior to the change in rules in 2010 had been correctly dealt with before 31 December 2014 which was the end of the grandfathering period provided for in the standard.

We have considered this matter, and given the following factors we have determined this to be a less than significant breach of the APB Ethical Standards because:

- No amounts are recognised in the Authority's accounts for the potential recovery of this tax;
- The amount of tax that is potentially recoverable £900k is, in any event, not material to the Authority;
- KPMG has not received any contingent fee income in respect of this engagement; and
- The potential contingent fee that KPMG could have received in respect of this engagement of £72k is not material to our firm.

Based on the above in our professional judgment we concluded that our objectivity has not been compromised and the firm and the engagement team are independent of the Authority.

We have also submitted a non business sporting services claim for the middle period in November 2014. This claim covered the period from 1 April 1996 to 31 December 2007. The fee agreed and paid was determined on a time spent basis and was for a total of £22,599.60, excluding VAT.

In addition we have undertaken work in providing assistance with a claim to recover in relation to VAT overpaid on the collection of trade waste. The four year claim was submitted for overpaid output tax in relation to the trade waste services for the period from 1 February 2008 to 31st March 2009 in February2012. The fee agreed for this work was also determined on a time spent basis and was issued on 22 April 2015 for an amount of £2,823.50, excluding VAT.

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality is £4.5 million for the Authority's accounts.

We have reported all audit differences over £225k for the Authority's accounts 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 2014/15, presented to you in March 2015.

Materiality for the Authority's accounts was set at £4.5 million which equates to around 2 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 £225k 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.

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Andrew Cardoza as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- to the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- Timely Engagement Lead and manager involvement;
- Critical assessment of audit evidence;
- Exercise of professional judgment and professional scepticism;
- Ongoing mentoring and on the job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

KPMG

cutting through complexity™