



External Audit Plan 2016/17

Northampton Borough Council

—

March 2017



The Local Government Landscape



The local government landscape is complex with significant challenges, both now and going forward.

This document sets out our assessment of risks which we consider relevant to the audit of your financial statements and your Value for Money (VFM) opinion approach to the audit, and explains how we intend to address these identified risks.



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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.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, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines



Financial statements audit

In 2016/17 there are noteworthy changes to the Code of Practice on Local Authority Accounting in 2016/17. These are primarily in relation to presentational changes affecting the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, and the introduction of new Expenditure and Funding Analysis.

We have set out our approach to the required audit risks as per professional standards, on fraudulent income recognition and management override of controls.

Our approach will be enhanced on payroll, accounts payable and journals through the use of data analytics.

Materiality

Materiality for planning purposes has been set at £1.5 million for the Authority. Materiality has decreased in 2016/17 due to additional risks identified (2015/16: £2.7 million). We are also obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £75,000 for the Authority.

Significant audit risks

We have identified the following risks which require specific audit attention and procedures to address the likelihood of a material financial statement error:

- Valuation of Council Dwellings
- Significant changes in the pension liability due to the LGPS Triennial Valuation
- Management override of controls

Other areas of audit focus

We have identified areas which are risks, but are less likely to give rise to a material error. Nonetheless we require an audit understanding of these risks. These are:

- Disclosures associated with retrospective restatement of CIES, EFA and MiRS; and
- Change in the Non Domestic Rates (NDR) system

See pages 6 to 12 for more details.



Value for Money arrangements work

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Governance Action Plan
- NTFC loan and the wider loans system; and
- Financial resilience in the local and national economy

See pages 13 to 19 for more details.



Logistics

Your core audit team is:

- Andrew Cardoza, Director
- Daniel Hayward, Senior Manager
- Joseph Seliong, Manager
- Katie Scott, Assistant Manager

More details are on **page 23**.

Our work will be completed in four phases from January to November and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 21**.

The PSAA scale fee was **£80,775**, however, the increased audit risk in 2016/17 and changes to the Code will result in additional costs, see **page 24**. Any changes to the fee will be discussed and agreed with the Authority and the PSAA.

Introduction

Background and Statutory responsibilities

This document supplements our *Audit Fee Letter 2016/17* presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 13 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.



Overview

Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

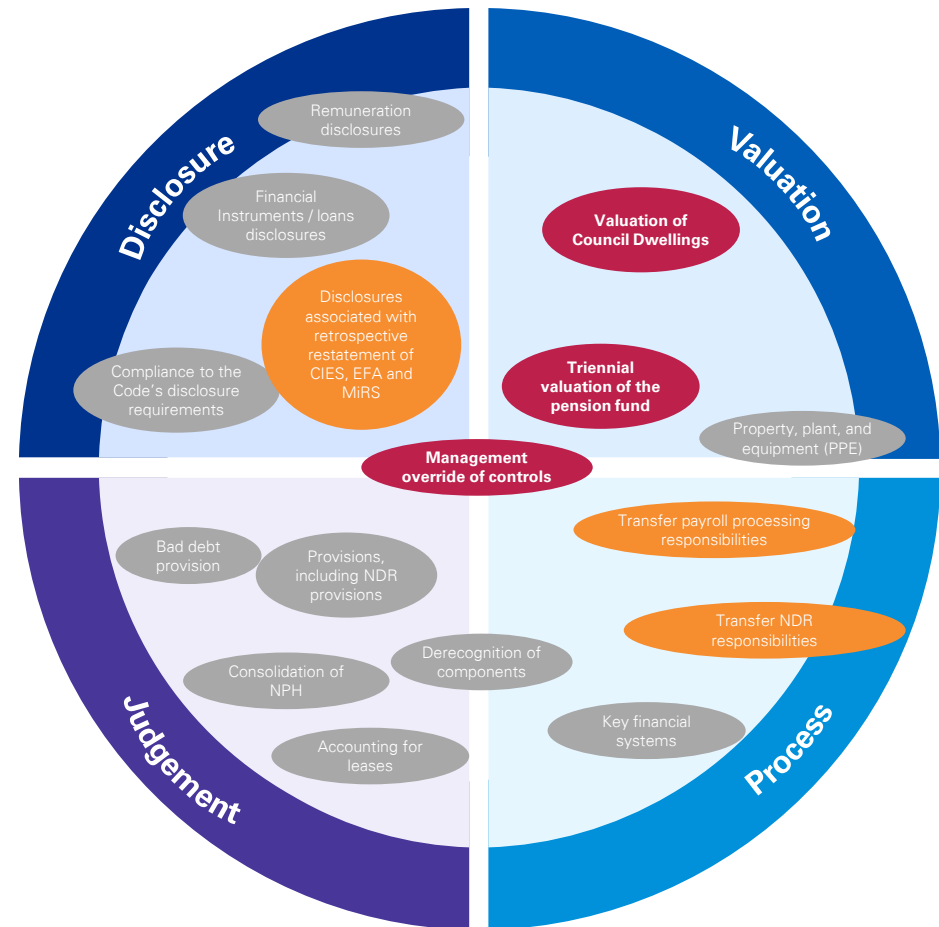
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the increased risk of the audit this year, we have specifically added this to our significant audit risks. In line with our methodology, we carry 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.
- **Fraudulent revenue recognition:** We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Other areas considered by our approach

Significant audit risks

Significant audit risks are key areas which we deem require specific audit attention due to potential for audit misstatements. Our assessment is presented below and our proposed audit approach to addressing these significant audit risks.

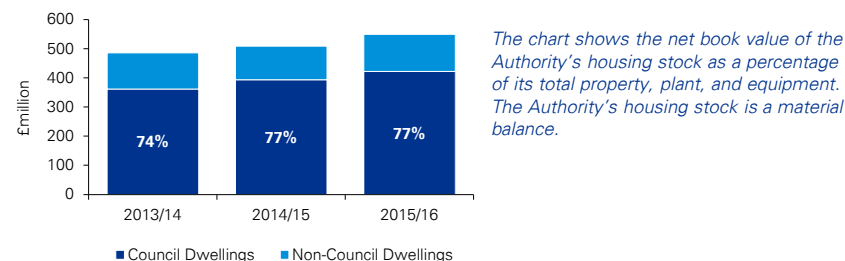
1. Valuation of Council Dwellings

In the year 2016/17, the Authority has engaged an external valuer to undertake a comprehensive review of beacon assets used within the valuation of the Authority's housing stock. This was in response to a higher-than-expected increase in the opening value of Council Dwellings during the course of the Authority's annual valuation exercise undertaken for the valuation as at 1 April 2016. For the year ended 31 March 2016, the Authority's housing stock was worth approximately £422 million, thus any change in the valuation is potentially a material change. There is also a risk that the beacon assets may not be representative of the Authority's housing stock, thus over or under-valuing the value of Council Dwellings on the balance sheet.

The revision of beacon assets is a change in the Authority's estimate of the value of Council Dwellings.

Our approach

We will engage with our own internal KPMG valuation specialist, where needed, to assess and review the report from your valuer. We will then ensure that the valuation has been accurately reflected within your fixed asset register.



2. Significant changes in the pension liability due to the LGPS Triennial Valuation

During the year, the Northamptonshire County Council Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Northamptonshire County Council, who administer the Pension Fund.

Our approach

As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with the Pension Fund Audit Team, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of such data.

Significant audit risks (cont.)

3. Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although our audit methodology includes the risk of management override as a default significant risk, we have identified that the events surrounding the loss of £10.22m in relation to the NTFC loan and the on-going police investigation are contributory factors in the increased risk, and specifically warrants management override of control as a significant risk to the financial statements.

Our approach

We have decreased materiality over the financial statements which will drive additional testing over the Authority's financial statements (see page 11). We will also enhance the use of data analytics techniques over the Authority's transactional data (for example, journals, payroll, and non-pay expenditure) to allow us to gain additional assurance over the balances

We continue to use professional judgement throughout our audit of your financial statements and will perform robust procedures, including:

- Examining journal entries and other adjustments;
- Reviewing accounting estimates;
- Evaluating the business purpose for significant unusual transactions; and
- Other procedures as necessary.

Other areas of audit focus

We have identified areas which are risks, but are less likely to give rise to a material error. Nonetheless we require an audit understanding of these risks and have set out our approach below.

1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS

During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Councils are funded and how they use the funding to serve the local population. Outcome of this project resulted in two main changes in respect of the 2016/17 Local Government Accounting Code (Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

Though less likely to give rise to a material error in the financial statements,

this is an important material disclosure change in this year's accounts, worthy of audit understanding.

Our approach

As part of our audit:

- We will assess how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and
- We will review the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance.

Other areas of audit focus *(cont.)*

2. Change in the Non Domestic Rates (NDR) system

In April 2016, the Authority returned the business operation of the NDR system to Northampton Borough Council from the previous consortium arrangement with the Borough Council of Wellingborough. This involved the migration of the NDR database to the Authority and included the re-design of system processes and protocols to ensure that the controls within the system are fit for purpose.

Our approach

Our IT Specialists will liaise with the Authority and complete testing as necessary to obtain assurance that the NNDR data has been transferred completely and accurately, and to ensure that the new system operates effective and appropriate controls and processes to reduce any material risks. We will then seek an understanding of the new system and controls in place at the Authority.

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at **£1.5 million** for the Authority's standalone accounts and group accounts, which equates to 0.6% of the Group's gross expenditure. This is a reduction in the level of materiality compared to the prior year to reflect the increased risk to the audit (2015/16: £2.7 million, or 1% of the Group's gross expenditure).

We design our procedures to detect errors in specific accounts at a lower level of precision. This is **£1.1 million**.

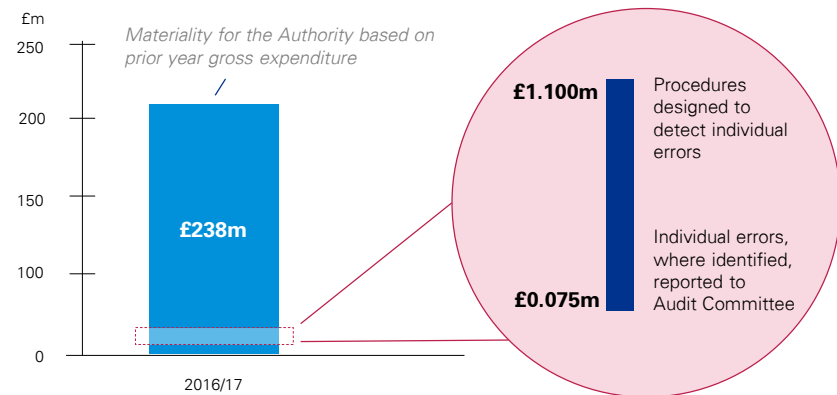
Reporting to the Audit Committee

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 unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK & Ireland) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK & Ireland) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

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 **£75,000**.

If 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.



We propose to report all individual unadjusted differences greater than £75,000 to the Audit Committee.

We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

Materiality *(cont.)*

Group audit

In addition to the Authority we deem Northampton Partnership Homes to be significant in the context of the group audit.

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of Grant Thornton who are the auditors to this subsidiary. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

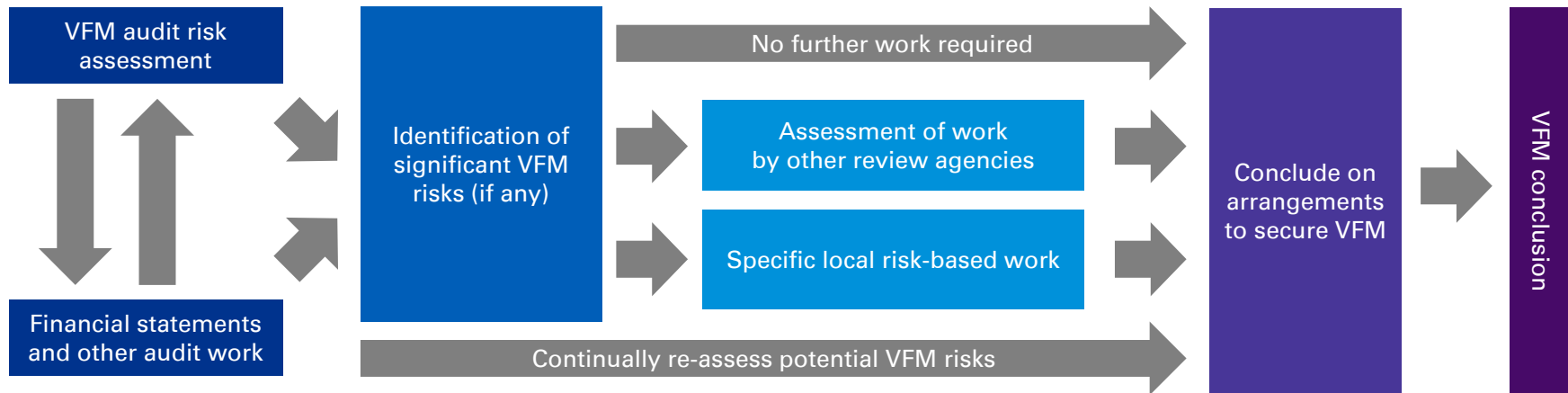
- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work of the subsidiary auditors gives rise to concern about the quality of that auditor's work.

Our approach

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority *'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'*.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. Each stage is explained overleaf.



Our approach (cont.)

VFM audit risk assessment

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the Code of Audit Practice.

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.

Linkages with financial statements and other audit work

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Identification of significant risks

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our approach (cont.)

Assessment of work by other review agencies

and

Delivery of local risk based work

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Meeting with senior managers across the Authority;
- Review of minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Concluding on VFM arrangements

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Reporting

We have completed our initial VFM risk assessment and have reported the results of this assessment on page 17.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work

Our approach (cont.)

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

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.



Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Significant VFM risks

Significant VFM risks are key risks which require specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

1. Governance Action Plan

In December 2016, the Authority's internal auditors, PwC, issued a report on the Authority's Risk Management Policy and framework and to advise the Council on best practice. This was in response to the loss of £10.22 million in relation to the loan to Northampton Town Football Club (NTFC). In response to the PwC report, the Authority developed a Governance Action Plan. This plan is a fundamental document for the Authority which contains all 11 recommendations made within PwC's report. There is a risk that issues and recommendations raised within the report are not addressed by the Authority.

Our approach

We will obtain the Authority's Governance Action Plan and review reported progress against this Plan. We will document how the Authority measures and evaluates performance against each action, and assess this against supporting documentation.

2. NTFC loan and the wider loans system

In 2015/16, we issued an adverse conclusion on the Authority's arrangements to secure value for money. We were not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to loans is adequate. Subsequent to the loss of £10.22 million, the Authority has approved up to £950,000 to be spent on recovering the lost monies.

Our approach

Our work will focus on how the Authority has achieved value for money in relation to the additional funds spent on recovering the loan. We will consider actions taken to date on the recovery of the lost monies to NTFC.

Our work will also consider the Authority's wider arrangements in monitoring the repayments of Authority-issued loans and the process in which the Authority captures potential loan issues. We will link this with our work on the Authority's financial statements.

Significant VFM risks (cont.)

3. Procurement

We identified management override of controls as a significant audit risk (see page 8). Linked to this risk is the resulting impact on the Authority's procurement process. Non-pay expenditure was approximately £11.5 million (37% of total cost of services expenditure) in 2015/16. Discussions with NBC's internal auditors (PwC and LGSS Internal Audit) have highlighted that this is an area which has not been assessed recently in the last few years, which gives rise to a significant VFM risk. This is also linked to our prior year recommendations (see our ISA 260 reports in 2014/15 and 2015/16) where we recommended that the internal audit of key operational areas should be better co-ordinated between NBC's two internal audit providers.

Our approach

We will gain an understanding of controls over procurement and look at how contracts are monitored throughout the year.

We will review how new contracts have been awarded in year, including reviewing all declared and undeclared interests.

We will also review all major procurement waivers and new contracts in year.

Significant VFM risks (cont.)

4. Financial resilience in the local and national economy

There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.

In December 2016, the Authority published a draft Medium Term Financial Plan 2017/18 – 2021/22 (which incorporates its Efficiency Plan published on September 2016) that sets out a balanced budget for 2017/18.

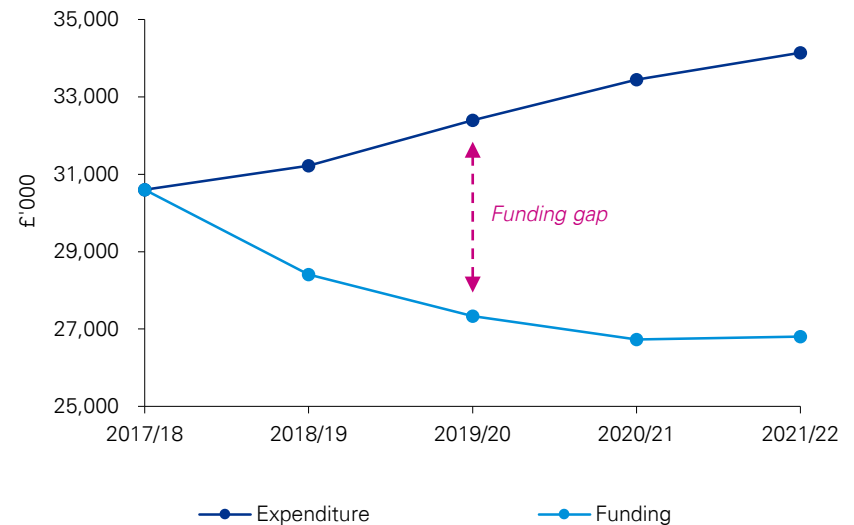
From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored by the management board. The Authority's proposed new governance arrangements include a specific officer board focussed on the delivery of the Efficiency Plan and associated improvement projects.

Our approach

We will rely on our accounts audit work where relevant, underpinned by review of the Authority's budget setting process, financial management processes, and discussions with the senior management team.

We will review fundamental assumptions made and the Authority's progress against its Efficiency Plan.

The chart below shows the Authority's Medium Term Financial Plan 2017/18 – 2021/22



Source: Draft General Fund budget, Item 8 Appendix 1 Cabinet report dated 14 December 2016

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

As reported in our *Annual Audit Letter 2015/16* issued in October 2016, we received an objection to the Authority's financial statements in relation to the loan to Northampton Town Football Club, which we are currently considering. We are not able to complete this due to the on-going police investigation.

Our audit team

Our audit team will be led by Andrew Cardoza, supported by Daniel Hayward

and Joseph Seliong to ensure consistency. This year, we have the additional support of Katie Scott who will bring a fresh perspective to the team. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance Team and the Audit Committee. Our communication outputs are included in appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 4 provides more details of our confirmation of independence and objectivity.

Audit fee

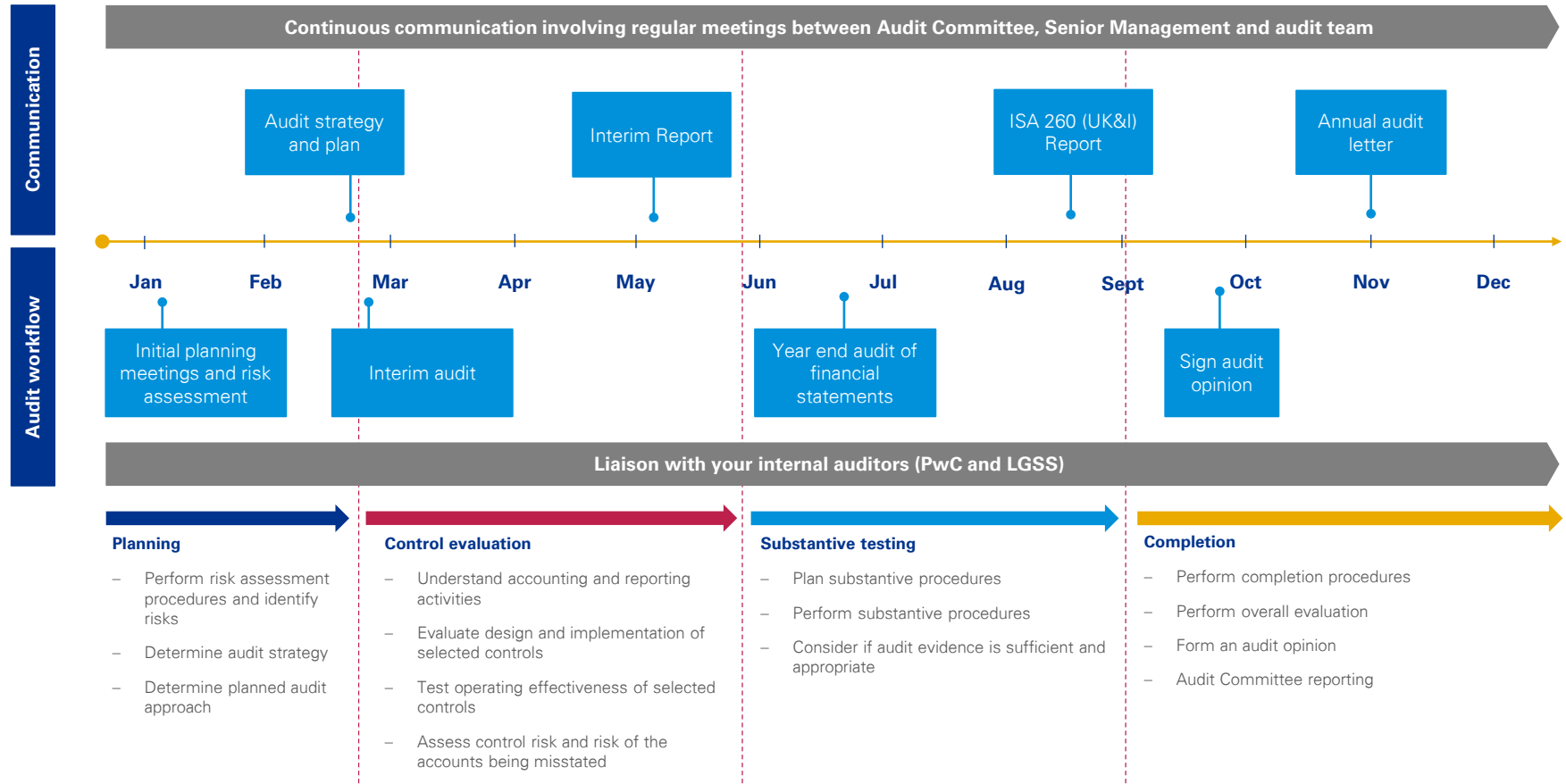
Our *Audit Fee Letter 2016/2017* presented to you in April 2016 first set out our proposed fee for the 2016/2017 audit, which was £80,775. This letter also set out our assumptions. Whilst the planned scale fee is unchanged from the prior year, we have subsequently identified additional risks and changes to the Code which will require additional audit work. The impact on the fee will be discussed and agreed with the Authority and subsequently, the PSAA. If such a variation is agreed with PSAA, we will report that to you in the due course.

We have identified an increased risk of management override of control, the Authority's re-evaluation of Council Dwellings, and the impact of the triennial pension fund revaluation (see page 7) as significant risks to the audit. Other additional areas include significant Code disclosure changes relate to the retrospective restatement of CIES, EFA and MiRS (see page 9) and a NDR system migration in-year (see page 10).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. See appendix 3 for further details.

1. Key elements of our approach

We adopt a continuous audit approach throughout the year including regular meetings with Senior Management, Finance team and internal audit.



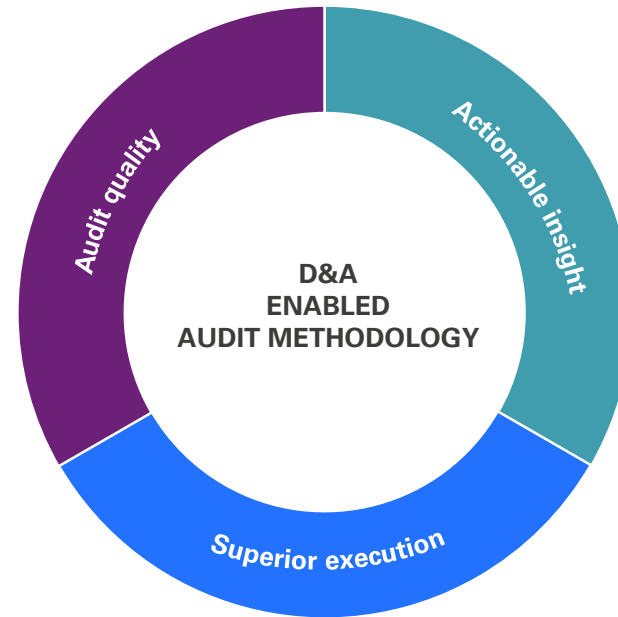
1. Key elements of our approach (cont.)

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable, payroll and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



2. Your audit team

Your audit team has been drawn from our specialist Public Sector Assurance department. The team were all part of Northampton Borough Council's audit last year, with the exception of Katie Scott, who brings a fresh perspective to the team.



Andrew Cardoza
Director

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andrew.cardoza@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Chief Executive.'



Daniel Hayward
Senior Manager

+44 121 232 3280
daniel.hayward@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.'

I will liaise with the Section 151 Officer and other Executive Directors.'



Joseph Seliong
Manager

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joseph.seliong@kpmg.co.uk

'I provide quality assurance for the audit work and lead the delivery of our work on any technical accounting and risk areas. I will work closely with Andrew and Daniel to ensure we add value.'

I will regularly liaise with the closedown team to support the Authority in achieving early sign off.



Katie Scott
Assistant Manager

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'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

I will also liaise with the closedown team to support the Authority in achieving early sign off.

3. Audit fees

Our fee for 2016/17 is set out below. Our audit fee remains indicative and based on you meeting our expectations of your support. The Authority has a number of additional areas of focus as part of the production of the financial statements, including the re-evaluation of Council Dwelling beacons and the restatement of the financial statements to meet new Code requirements.

Audit fee

Our proposed fees continue to be set by Public Sector Audit Appointments Ltd (PSAA) for 2016/17. Our proposed fees for 2016/17 are set out below:

Fee table			
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £	2014/15 (actual fee) £
Accounts opinion and use of resources work			
PSAA scale fee set in 2014/15	80,775	80,775	107,700
Additional work to conclude our opinions (note 1)	TBC	17,250*	–
Subtotal	TBC	98,025	107,700
Housing benefits (BEN01) certification work			
PSAA scale fee set in 2014/15	TBC	10,579	14,650
Additional work to conclude our certification (note 2)	TBC	–	10,646
Subtotal	TBC	10,579	25,296
Non-PSAA assurance work			
Pooling of Housing Capital Receipts (CFB06)	TBC	4,118	3,000
Subtotal	TBC	4,118	3,000
Elector objection (note 1)	TBC	37,055	0
Total fee for the Authority	TBC	149,777	135,996

All fees are quoted exclusive of VAT.

*Subject to PSAA approval

Note 1: Accounts opinion and use of resources work

- For 2016/17, we will confirm our final fees with the S151 Officer upon conclusion of our risk assessment.
- In 2015/16, the PSAA approved a fee variation of £37,055 in respect of an elector objection to the accounts, which had previously been agreed by the Authority. This work involved the use of KPMG specialists. We have also agreed a fee variation of £17,250 with the S151 Officer in relation to the additional costs incurred due to overruns which have previously been reported in both our *Annual Audit Letter 2015/16* and the *External Audit Report (ISA 260) 2015/16*. This is still subject to approval by the PSAA.

Note 2: Housing benefits (BEN01) certification work

- In 2014/15, the PSAA approved a fee variation of £10,646 in relation to additional work undertaken and delays caused by staff unavailability. This was previously reported in our *Certification of Claims and Returns 2014/15*.

Audit fee letter

Our 2016/17 fee letter was issued in April 2016 prior to the completion of our 2015/16 audit to meet required PSAA timetables.

Our fee letter set out the assumptions including the general level of risk in relation to the audit of the 2016/17 financial statements. However, additional risks have been identified since, including an increased risk of management override of control (see page 8), a restatement of the financial statements to meet new Code requirements (see page 9), and a Non-domestic Rates (NDR) system migration. We will continue to liaise with management on this matter.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good-quality supporting working papers, within agreed timeframes.

4. Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of March 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

5. Responsibilities in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities	KPMG's identification of fraud risk factors	KPMG's response to identified fraud risk factors	KPMG's identified fraud risk factors
<ul style="list-style-type: none"> - Adopt sound accounting policies. - With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud. - Establish proper tone/culture/ethics. - Require periodic confirmation by employees of their responsibilities. - Take appropriate action in response to actual, suspected or alleged fraud. - Disclose to Audit Committee and auditors: <ul style="list-style-type: none"> - Any significant deficiencies in internal controls. - Any fraud involving those with a significant role in internal controls. 	<ul style="list-style-type: none"> - Review of accounting policies. - Results of analytical procedures. - Procedures to identify fraud risk factors. - Discussion amongst engagement personnel. - Enquiries of management, Audit Committee, and others. - Evaluate broad programmes and controls that prevent, deter, and detect fraud. 	<ul style="list-style-type: none"> - Review of accounting policies. - Results of analytical procedures. - Procedures to identify fraud risk factors. - Discussion amongst engagement personnel. - Enquiries of management, Audit Committee, and others. - Evaluate broad programmes and controls that prevent, deter, and detect fraud. 	<p>We will monitor the following areas throughout the year and adapt our audit approach accordingly.</p> <ul style="list-style-type: none"> - Revenue recognition. - Purchasing. - Management control override. - Manipulation of results to achieve targets and expectations of stakeholders.

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 drivers of quality through a focussed and consistent voice. Your 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 NAO’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.
- 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.



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