



External Audit ISA260 Report 2017/18

Northamptonshire County
Council
and
Northamptonshire
Pension Fund

September 2019



Summary for Audit Committee

This document summarises the key findings in relation to our 2017/18 external audit at Northamptonshire County Council ('the Authority'). This report covers our final on-site work which was started on 4th June 2018 and has continued until June 2019.

Financial statements

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing) – see Page 18:

Valuation of PPE & Investment Properties

The Authority revalues their assets as of 1 April 2017, the start of the relevant financial year. In order to gain assurance that the value of assets is materially correct at the balance sheet date, 31 March 2018, and are therefore appropriately accounted for within the Authority's 2017/18 financial statements, the Authority also obtains a 'Market Review' report from their valuers, Wilkes, Head and Eve (WHE). The report suggested there was a general market movement upwards of up to 17% for assets valued under the Depreciated Replacement Cost methodology during the course of the year. In discussion with the Authority, and due to the lack of further audit evidence to provide assurance that valuations therefore remained appropriate, the Authority instructed its valuers to revalue these properties as of 31 March 2018 to ensure they are materially accurate within the 2017/18 accounts. As a direct result of this, a number of amendments were made to the Authority's 2017/18 financial statements to adjust the assets for the revised valuations.

Further details can be found on page 19. We have raised related recommendations in Appendix One.

Capital Flexibilities and Capital Programme

As a result of our review of the Flexible Use of Capital Receipts, we noted that overall there was generally very little evidence and supporting documentation provided to us to support the Authority's overall use of capital receipts to fund transformational spending. The Authority did not have a specific project management framework in place to monitor its overall transformational programme, but rather relied on individual service areas or project owners to manage these on a case by case basis. Within this, there was no set template for on-going reporting and monitoring of the programme to ensure consistency of approach. Evidence now exists which shows that projects previously presented to audit as time limited one-off projects are in actuality on-going costs which would be required to be incurred by the Authority. They therefore, in our view, do not meet the necessary criteria to be funded via capital receipts. Following subsequent discussions with Officers, the Authority has confirmed it no longer deems £16.959 million of expenditure to meet the definition of transformational spend as required by the guidance in order to be funded via capital receipts. As a result, this expenditure will need to be funded via general funding. The consequence of this financial position is that the Authority now reports a negative general fund position as of year-end.

Further details can be found on page 23. We have raised related recommendations in Appendix One.

Summary for Audit Committee (cont.)

Financial statements

Management Override of Controls

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

Given the new and increasing risks and issues facing the Authority we decided to decrease materiality over the financial statements which drove additional testing over the Authority's financial statements. We also enhanced 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 will also reviewed the new financial controls issued with the Section 114 Notice. Further details can be found on page 25.

Fraudulent Revenue and Recognition

A summary of our work on different revenue/grant sources is as follows:

- **Public Health Grant:** In response to an issue identified by Public Health England, we extended our audit testing over other ring-fenced grants and requested evidence from the Authority that all terms and conditions for such streams of funding have been adhered to, and there are no other on-going disputes regarding possible clawback of public funds. Based on our testing, there were no other material audit issues we wish to report.
- **Section 106 monies:** As previously reported in our External Audit Report 2016/17, the Authority utilised £9 million of Section 106 funding within its 2016/17 accounts, as approved by Cabinet on 16 May 2017 under "income prioritisation". A further £4.5 million of S106 funding has been utilised in 2017/18. Following our review and subsequent discussions with Officers, the Authority confirmed it no longer wished to pursue the recognition of such revenue from Section 106 monies to fund general expenditure.
- As a result of this, and the lack of other available mechanisms to fund the expenditure previously accounted for via S106 monies, this will contribute to the Authority's negative general fund balance as of 31 March 2018. This audit adjustment is detailed in Appendix Three.
- **Section 38 monies:** Following our review and subsequent discussions with Officers, the Authority confirmed it no longer wished to pursue the recognition of the £2.8 million of S38 monies utilised in year to fund general expenditure. It therefore proposed reversing these contributions from the accounts.
- As a result of this, and the lack of other available mechanisms to fund the expenditure previously accounted for via S38 monies, this will contribute to the Authority's negative general fund balance as of 31 March 2018. This audit adjustment is detailed in Appendix Three.

Further details can be found on page 27.

Summary for Audit Committee (cont.)

Financial statements

Best Value Report and Going Concern

We have reviewed the events and conditions, along with the other matters explained in the basis of preparation note (page 28 of the accounts), and following extensive consultation confirm that we do not believe in the current circumstances they constitute a material uncertainty in relation to the Authority's ability to continue as a going concern.

Further details can be found on page 28. We have raised related recommendations in Appendix One.

Recalculation of the Minimum Revenue Provision

In January 2018, the Authority engaged external treasury management specialists, Link Asset Services, to undertake a review into its Minimum Revenue Provision (MRP). The MRP review undertaken identified that an adjustment could be made to the MRP charged in 2017/18 and future years going forward. This adoption of the MRP Policy resulted in a reduction of the MRP charges of up to £9.9 million in 2017/18. In addition over the long term the impact using a net present value calculation demonstrated a potential saving to the Authority of £27.5 million over a 60 year period. The change was approved at Council in March 2018.

Further details can be found on page 31. We have raised related recommendations in Appendix One.

Pensions Liabilities

As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, and assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the methodology and key assumptions included within the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As a result of this work we are satisfied that the net pension liability has been appropriately accounted for by the Authority.

Further details can be found on page 32. We have raised related recommendations in Appendix One.

Completion

We are now in the completion stage of the audit and anticipate issuing our audit opinion in August 2019, following approval of the financial statements at the July 2019 Audit Committee, as well as receipt of the Authority's Management Representation Letter.

We will present our Annual Audit Letter to the November 2019 Audit Committee.

We are currently considering whether we will issue a Public Interest Report. If we decide to issue such a report, we are unable to issue our completion certificate until after this has been finalised.

Summary for Audit Committee (cont.)

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing a qualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

Financial Resilience

As a result of the work and the reviews that we have undertaken, we are unable to state that in 2017/18 Northamptonshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore expect to issue an adverse 2017/18 value for money opinion.

Further details can be found on page 48. We have raised related recommendations in Appendix One.

Cost Savings Plans

The Authority set a net revenue budget of £417.4 million for 2017/18, including a requirement to make £58 million of savings. The Authority utilised £21.0 million of capital receipts in 2016/17 to fund transformational spending. These projects were designed to achieve £16.3 million of savings in year, however, only £8.1 million (50%) was delivered with many projects not delivering any savings at all. In total £7 million (33% of total projects) was spent on transformational projects that have not delivered any savings in 2016/17 nor 2017/18. During the course of our audit, there was generally very little evidence supplied to us for any of the cost saving programmes detailed.

Further details can be found on page 61. We have raised related recommendations in Appendix One.

Capital Strategy

The Authority's reported outturn spend on its Capital Programme during 2017/18 was £143 million. Of this, £68.1 million was spent on Environment, Planning and Transport, whilst £60.99 million was related to capital programmes within the Children's Services. As part of our detailed work we have identified a number of projects where the Authority lacks robust governance over the lifetime of the project, including the original planning and business case stage, and on-going project management and reporting.

Further details can be found on page 57. We have raised related recommendations in Appendix One.

Summary for Audit Committee (cont.)

Value for money arrangements

Transformational Plans and Capital Flexibilities

As part of our review we noted that there was generally very little evidence and supporting documentation provided to us to support the Authority's overall use of Capital Flexibilities for transformational spending.

The Authority did not have a specific project management framework in place to monitor its overall transformational programme, but rather relied on individual service areas or project owners to manage these on a case by case basis. Within this, there was no set template for on-going reporting and monitoring of the programme to ensure consistency of approach.

Without this on-going overall monitoring by senior management of the transformational programme, including progress against specific goals and milestones (such as generating on-going cost savings and service transformation) there is a risk that money is invested in projects which fail to deliver their outcomes, utilising scarce financial resources which could have been deployed more effectively elsewhere.

As part of our audit request, the Authority was asked to provide details on the specific cost savings each project has achieved. This appears to be the first time that such information was centrally gathered and reported. The Authority utilised £21.0 million of capital receipts in 2016/17 to fund transformational spending. These projects were designed to achieve £16.3 million of savings in year, however, only £8.1 million (50%) was delivered with many projects not delivering any savings at all. In total £7 million (33% of total projects) was spent on transformational projects that have not delivered any savings in 2016/17 nor 2017/18.

There was a lack of robust governance over the entire process. For some projects, business cases had not been developed, there were no project initiation documents, and no governance or monitoring structure in place to ensure the transformational programmes were delivering the benefits they had been designed to do.

Likewise, we requested examples from Officers of Benefits Realisation documents to show how the Authority has assessed completed projects, whether successful or not. At the time of our work, no such evidence could be provided to us to show the Authority had undertaken work to understand why certain projects had failed to deliver projected savings.

As a result, there is a risk that the Authority does not learn from its mistakes, and does not strengthen its processes appropriately going forward. Example areas for strengthening include business case development, due diligence, governance, monitoring etc.

Further details can be found on page 64. We have raised related recommendations in Appendix One.

Summary for Audit Committee (cont.)

Value for money arrangements

Risk Management

A revised Risk Management Policy and Risk Management SORP, as well as an updated draft Corporate Risk Register was presented to the February 2018 Audit Committee. During our review, in May 2018, the Authority confirmed that the Strategic Risk Register has not been reviewed or revised by the Authority's Management Team since the last Audit Committee. As a result, all of the actions within the Risk Register remained outstanding and have not had a revised target date added by risk owners. Similarly, there has been no risk owner reassessment of the risks and triggers, residual risks nor adequacy of the existing controls and actions.

The Authority currently faces a significant number of risks to its day to day operation, whether financial or operational. Many of these have already been highlighted in various external reports, including our previous audit reports, the LGA Peer Review, and the Caller Report. As noted elsewhere, strong action plans should be put in place to manage or mitigate these risks. Without a finalised Corporate Risk Register and associated action plans, then there is no assurance that the Authority is dealing with these issues appropriately or in a timely manner.

Therefore for the financial year 2017/18 we are unable to gain assurance that risk registers are robustly collated, monitored and reported, nor that local risk registers inform one another and comply with the overall Risk Management Policy.

As of 2017/18, the Corporate Risk Register was not supported by sufficient and appropriate evidence, and it could therefore not be used to enable Cabinet to make appropriate decisions. The Corporate Risk Register was not being used as a 'live' document and wasn't updated on a regular basis. During the financial year, we did not see any evidence that risk registers were informing the work plan or agenda of Committees, including Cabinet and Council.

Further details can be found on page 66. We have raised related recommendations in Appendix One.

Summary for Audit Committee (cont.)

Value for money arrangements

Off-Payroll Working through an Intermediary (IR35)

As we have previously reported, during the course of the year, we undertook work in relation to the re-engagement of a previous employee of the Authority via a contract with their own company, a few days after they had originally left the organisation.

The Authority did not undertake any review prior to initiating the engagement regarding how such an arrangement would comply with its own internal guidelines and policies, nor specifically any DCLG, Treasury or HMRC guidance. The Authority believed that the arrangement did not meet the requirements of being an employment relationship under IR35 considerations. No tax or legal advice was obtained prior to entering into the engagement.

Please refer to page 69 for further details and we have raised related recommendations in Appendix One.

Chief Executive Payment

The Authority has a procedure for the negotiation of severance agreements for Chief Officers and this forms part of its Constitution, and is also included in its Pay Policy.

The exit of the previous permanent Chief Executive was a decision taken by the former Leader in consultation with Cabinet, following advice from Officers. An agreement was reached for the departure of the previous permanent Chief Executive, in accordance with this advice, including the nature and value of the settlement.

We reviewed the Authority's process for agreeing a settlement agreement package with the previous permanent Chief Executive, and confirmed that appropriate calculations had been made to derive certain figures such as pay in lieu of notice.

We noted that an element of pay, as for other 'exit packages' include holiday entitlement not taken. We were unable to gain assurance over this calculation as there is no central tracking or authorisation of annual leave taken during the year against individual's entitlements, and therefore no auditable trail of evidence to confirm what the holiday balance for any employee is at any point in time.

We were however able to confirm that payments were made in line with the settlement agreement, with the exception of a validated holiday entitlement.

Please refer to page 71 for further details and we have raised related recommendations in Appendix One.

Financial Peer Review and Action Plans

Following the appointment of Commissioners on 10 May 2018, we met with Tony McArdle and Brian Roberts to discuss the steps the Authority needs to undertake in order to address the concerns raised within the Financial Peer Review undertaken by the Local Government Association in September 2017.

This links in with our wider work on the Authority's financial stability, including reviewing the short and medium-term financial plans, within the context of a proposed Unitary solution within Northamptonshire which may commence as soon as April 2021. We have raised related recommendations in Appendix One.

Please refer to page 72 for further details and we have raised related recommendations in Appendix One.

Summary for Audit Committee (cont.)

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

If, through the course of our audit, we identify any such matters, we will issue a report separately to this audit report. It is our intention to issue a Public Interest Report.

In addition, we also exercised our powers in accordance with Section 29 and Schedule 8 to the Local Audit & Accountability Act 2014 to issue an Advisory Notice relating to the Authority's decision-making process for setting a budget for 2018/19, and its precept for 2018/19.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their help during our audit and wish them good luck for the future.

An overhead photograph of four business professionals sitting around a white conference table in a bright, modern office. The participants include a woman in a grey top at the top, a man in a light blue shirt on the left, a woman in a white top and black skirt at the bottom left, and a man in a light blue shirt at the bottom right. A laptop is open on the table in the center, and a black folder is placed next to it. The scene is brightly lit, with shadows cast across the table and floor.

Section one

Financial Statements

Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on 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 have raised a number of issues regarding the suitability of certain accounting judgements made in the preparation of the draft financial statements, as well as delays to the audit arising from late or poor quality working papers and query resolution.

The Authority has provided an update on its implementation of prior year recommendations in Appendix Two.

Accounts practices and production process

As reported previously, as part of our planning process from January 2018 we discussed in detail with the LGSS Closedown team, the plans for the preparation of the annual accounts and our Prepared By Client request which documented all the initial evidence we required to commence our audit.

We discussed the LGSS Closedown team's plans for the preparation of the annual accounts ahead of the earlier deadline for 2017/18 which was 31 May 2018. Our PBC request was shared with the LGSS Closedown team on 25 January 2018, and we utilised the KPMG Central facility, which is a cloud-based document storage system, to enable efficient data-sharing and tracking of PBC requests.

Interim

In our Interim Report 2017/18 we were pleased to note that the majority of interim PBC items were provided ahead of our on-site visit. This continued the good performance which we noted in the previous year. However, we did note that some items were not fully-aligned to our PBC requests and were documents which had been rolled forward from the previous years. Examples include additions and disposals of fixed assets; and contracts review.

These were resolved by our team whilst on-site, but we note that improvements could be made to increase efficiency and avoid duplicate efforts.

Final Accounts

At the commencement of our agreed main on-site visit for the 2017/18 audit, a number of key working papers had not been finalised for our review. This had not been communicated to us prior to our arrival on-site. This included basic working papers relating to borrowings and investments, grants, expenditure / accruals cut-off testing and the Authority's analytical review of its net cost of services.

Likewise, the information requested for the purposes of our data analytics procedures over accounts payable (expenditure) was also not ready at the start of our audit. Data provided to us during the course of the audit was also found to be incorrect, meaning we had to perform extra audit procedures a number of times.

Response To Audit Queries

During the course of the audit, we also encountered significant delays in response to our audit queries. Unfortunately this has not been isolated to a few small areas, but widespread across most areas including HR, payroll, pensions, cash, accounts payable, creditors, procurement, grant income, journals, borrowings, investments, property, and related parties. These delays have been primarily caused by poor responsiveness from individuals and teams across the Authority and outside of the Integrated Closedown team.

We therefore spent significant additional time and resource over and above that planned in respect of the basic areas (i.e. non-high risk) of our audit process. In many areas, this is double / triple what we would normally expect if high quality working papers were prepared first time, and audit queries were responded to in a timely manner.

Accounts production and audit process (cont.)

Accounts practices and production process (cont.)

On 20 July 2018, the NCC Section 151 Officer (S151) and LGSS Director of Finance issued a joint communication to individuals responsible for outstanding audit queries emphasising the prioritisation of this for both organisations.

Unfortunately this failed to generate any decisive action, and outstanding audit queries continued to remain into the autumn. These were reported in September and November 2018 progress reports.

It appears that at this stage, with the audit deadline missed, the Authority started to focus on other commitments and outstanding queries began to take a lot longer than they should have. A small number of audit areas were unresolved until April and May 2019.

Key delays encountered during the audit include:

Accounts Payable

Part of our original planned audit testing over accounts payable was based on the use of data analytics. However, following significant delays to the provision of the data (initially requested as part of our Prepared by Client request in January 2018), we only received the complete set of data and supporting information to perform our testing on 2 October 2018. Delays, including the provision of the requested data and incorrect data fields, had a significant knock-on effect in relation to the audit completion timetable for the 2017/18 audit.

Valuations

Since February 2018 we had been requesting the valuation that the Authority informed us had been undertaken of One Angel Square as part of the due diligence work leading to the sale and leaseback. As reported in July 2018, the Authority then confirmed that no such valuation had been commissioned, and the last valuation of One Angel Square was obtained on 22 May 2017, the date at which it first became operational.

The Authority then had to commission a new valuation of One Angel Square as of 31 March 2018 for year-end accounting purposes. After finally receiving this in September 2018 our valuation expert reviewed this and provided challenge back to the Authority, resulting in further audit queries.

Following receipt of further information regarding the fact that additional valuations of One Angel Square had taken place, we raised a number of queries with the Authority and their valuers in April 2019. This took a significant time to resolve, and we only closed this area off in early June 2019.

As previously noted, the Sale and Leaseback of One Angel Square was approved by Cabinet on 13 February 2018. Since that point in time, we were continually requesting from the Authority a valuation for the purpose of its sale (when this was originally intended to be in the 2017/18 financial year), the Authority confirmed in September 2018 that this valuation did not exist. The sale took place in April 2018, therefore it falls into the 2018/19 financial statements for the purposes of accounting and VFM considerations.

We have raised recommendations relating to these matters in Appendix One.

Audit Risk Areas

We suffered similar delays across the majority our key audit risk areas, in respect of Capital Flexibilities, S106 monies, S38 monies, Public Health Grant, and Insurance Fund.

As reported throughout the year, our work across these important areas suffered significant delays. Initially, relating to the provision of quality working papers to support the treatment of such transactions in the 2017/18 draft financial statements, then in respect of numerous delays in receiving sufficient and appropriate audit evidence, and responses to audit queries, then finally in the prolonged discussion held with Officers regarding the need to make audit adjustments and reverse these transactions out of the accounts.

Accounts production and audit process (cont.)

Accounts practices and production process (cont.)

As noted in our audit progress report of September 2018, after these proposed audit adjustments had been agreed in principal, in order to review the appropriateness of these adjustments we required the Authority to provide updated working papers in relation to all of these amendments, including the rationale for the revised treatment in line with the Code of Practice and Accounting Standards. We only received this paper on 30 October 2018, and this was required to be reviewed by the audit team and our internal technical specialists.

The additional work, both initially in respect of reviewing these areas as high risk, then furthermore as a result of poor or missing working papers, alongside extensive audit queries and delays in confirming treatment from the Authority, have resulted in significant additional time input and therefore cost to the audit in respect of all these areas.

WGA: The Authority was also required to submit its Whole of Government Accounts (WGA) draft submission pack to the National Audit Office by 14 June 2018. The Authority was subsequently granted a number of extensions by the NAO, all of which have been missed. We are normally required to complete our audit work over the WGA before we can issue our 2017/18 audit certificate, however the Authority is in discussion with the National Audit Office regarding whether this submission is still required given the Whole of Government Accounts consolidation exercise has now taken place.

Capital Grants: Following delays in the provision of working papers, in September 2018 we commenced our review of this area. The original, and subsequent, information provided to us was of a poor quality and we had to request several iterations of working papers in order to obtain sufficient and appropriate evidence from which to commence our sample testing. This process took place over a number of months and we only received the final elements required by us for our audit to close this area off in April 2019.

Declarations of Interest: We did not receive all of the required declaration of interest forms back from Councillors until October 2018. This is a process which should have been finalised during the first week of our on-site visit in June 2018, if not before.

Audit Impact

All of the quality issues above meant that we had to undertake significantly more audit work to understand some of the initial working papers presented for audit by the Authority. The audit team had to wait for the provision of revised working papers to address the issues we found. The delays have meant that we spent additional time over and above what was originally planned, even taking into account the high risk nature of the audit. This included significant work undertaken after the agreed on-site visit in the summer. As reported previously to Audit Committee, these delays have had an impact on the final audit fee.

There is scope for significant improvement through further development of working papers to enhance understanding, clarity, and the audit trail. We have raised related recommendations in Appendix One.

Investigations

Following matters raised during the course of the audit in respect of NEA Properties, and an issue relating to the re-engagement of a previously made redundant LGSS employee under a personal service contract, the Authority commenced two independent internal investigations into these respective matters.

As a result of this, and in agreement with the Authority, we therefore paused our work in these areas in order for the investigations to take place, with the intention that we take into account the work and findings of the Authority, and avoid possible duplication of effort.

We received the report into NEA Properties on 27 March 2019. We received the report into the LGSS redundancy and re-engagement issue on 21 May 2019. As such we have determined that we do not need to undertake any further audit work in these areas, and expect the Authority to take any appropriate action as detailed in the respective reports.

Accounts production and audit process (cont.)

Going concern

The Council has prepared its annual 2017/18 Statement of Accounts under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). As part of our audit work we have assessed whether there is a material uncertainty within the financial statements which could cast significant doubt on the Authority's ability to continue as a going concern.

Northamptonshire County Council had a long running underlying structural deficit of over £100 million up to the financial year ending 31 March 2018. Other Going Concern considerations include the fact that as an organisation, the County Council is due to cease to exist as of April 2021 with the implementation of two Unitary Councils within the geographical boundaries of Northamptonshire.

We draw attention to the Authority incurring a reduction of £47.025 million in its General Fund balances for the year, having net current liabilities of £280.055m (2016/17, £196.983m), and net liabilities of £358.169 million (2016/17, £322.744 million). The basis of preparation note (page 28 of the accounts) indicates that the Authority's ability to continue as a going concern is dependent on the Authority improving its cash liquidity, improving its financial sustainability in the short to medium term and the impact of the proposed abolition of Northamptonshire County Council and the creation of two new Unitary Councils from April 2021.

Due to the financial circumstances in which the Authority is currently operating, it decided to produce a going concern assessment in January 2019 to reaffirm its basis as a going concern. This also fulfils the requirements of international accounting standard IAS1, paragraph 25, for the management of an organisation to produce an assessment of the organisation's ability to continue as a going concern.

Liquidity

The Authority notes that the increase in the Authority's General Fund deficit caused by the amendments to the 2017/18 financial statements does not change its cash balance as of 31 March 2018.

At this date, the Authority had net current liabilities of £280 million, which includes £255 million of short term borrowing. The Authority's current Treasury Management Strategy is to borrow short term to finance its capital investment programme to take advantage of lower interest rates. The Authority informed us that it could replace this by much longer term borrowing, if it chose to do so, thereby improving its net current liabilities, and that it also has access to finance via the Public Works Loans Board.

The Authority's Treasury Management Advisors undertook a detailed balance sheet review at 31 March 2018. The Authority states that the review demonstrated that it was well below its underlying capital borrowing requirement by £91 million. Therefore, if required, the Authority considers that it could borrow a further £91 million to fund its capital borrowing requirement entirely from external borrowing, bringing additional cash back into the organisation. Furthermore, the Authority sold its main office building, One Angel Square, for £64 million in April 2018. The Authority therefore states that it believes these factors demonstrate that the Authority has available cash resources or access to borrowing to pay commitments.

Financial Sustainability in the short to medium term

The Authority notes that with the support of the Commissioners appointed by the Secretary of State, it approved a Stabilisation Plan on 9 October 2018 that is aimed at addressing the in-year budget deficit. In addition the Authority was advised by Ministry of Housing, Communities and Local Government on 28 November 2018 that it was successful in its application for a direction to treat revenue expenditure as capital expenditure. The Direction is worth up to £70 million and has three components: the recovery of the deficit at 31 March 2018 i.e. £35.4million; the creation of an unallocated revenue reserve of £20million; and the balance to be used to manage the risk that the financial savings in the Stabilisation Plan are not realised in full in 2018/19. The Authority approved its Medium Term Financial Plan from 2019/20 to 2021/21 at the Council meeting on February 2019.

Accounts production and audit process (cont.)

Unitary

Paragraph 2.1.2.6 of the CIPFA Code states that *“transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of that the financial statements shall be prepared on a going concern basis of accounting.”*

The Authority considers therefore, that if a statutory order is taken by the Secretary of State to abolish Northamptonshire County Council and create two new Unitary Councils, then the functions of the Authority will continue in operational existence for the foreseeable future, and does not negate the presumption of the Authority being a going concern.

Conclusion

We have reviewed these events and conditions, along with the other matters explained in the basis of preparation note (page 28 to the accounts), and following extensive consultation confirm that we do not believe in the current circumstances they constitute a material uncertainty in relation to the Authority’s ability to continue as a going concern.

This conclusion in relation to Going Concern should not be interpreted as meaning the Authority does not continue to face severe financial challenges. For further information on this please see your value for money section of this report include risks around delivery of budgets, financial resilience, and cost savings plans.

Accounts production and audit process (cont.)

Implementation of recommendations

We raised 5 recommendations in our ISA 260 Report 2016/17. In our *Interim Report 2017/18* in May 2018, we set out the status of those recommendations, as well as 14 other historical recommendations raised in our previous External Audit Reports. The Authority has now implemented some of the recommendations in line with the timescales of the action plan.

The table below sets out the Authority's progress against the prior year high priority recommendations, and the five medium priority recommendations raised in 2016/17. Further details are included in Appendix 2.

Issue	Progress
H Streamlining the accounts production and closedown process	The Authority has further developed the Accounts production process using the new ERP Gold system.
H Governance of 'Next Generation Council' federated vehicles	The Authority has returned the services provided by both Olympus Care Services Limited and First for Wellbeing CIC back into the Authority with the effect of 1 April 2018 and 1 September 2018 respectively.
H Retrospective Purchase Orders	The review of retrospective orders is an on-going process, between April 18 and November 18.
M Review of actuarial assumptions	The Council provided an assurance statement to KPMG as part of 2017/18 closedown, which explained why its S151 Officer provides reliance on the key Pension Fund actuarial accounting assumptions.
M Capital accruals process	The accruals process for capital is consistent with the procedure for revenue accruals. Automatic accruals are raised as purchases on ERP Gold, and any manual accruals raised are reviewed by the finance business partner team.
M Accountability and transparency in relation to the flexible use of capital receipts	A full response to this issue has been provided as part of the Council's reply to KPMG's 2017/18 full audit ISA recommendations.
M Fire fleet fixed asset register	As part of the transfer of the Fire Service to the Office of the Police and Fire Crime Commissioner in January 2019, work was done to verify and reconcile fixed assets in order to populate the Schedules attached to the Property Transfer Scheme and to create a separate opening balance sheet for the new entity.
M Narrative report	<p>A Narrative Report has been completed as part of 2017/18 Statement of Accounts which provides a concise overview of the Council's Strategy, and priority objectives and its resulting financial performance (revenue and capital) in delivering those objectives.</p> <p>This report will be continued and enhanced where possible for future years' audits.</p>

Accounts production and audit process (cont.)

Completeness of draft accounts

We received an updated version of the accounts on 11 June 2019. We were told that these had been thoroughly quality checked before being passed on for audit purposes. We immediately began our checking again, however, on 17 June 2019, whilst we were part-way through our final procedures, the Authority informed us that there were still errors and omissions within this version, and that a new, revised version would be provided for audit purposes. We received this on 18 June 2019. Following further checks and iterations of the accounts, we received a copy of the accounts presented to this Audit Committee on 19 July 2019.

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by component auditors on the financial statements of the Authority's subsidiaries:

- First For Wellbeing CIC;
- Northamptonshire Trading Ltd; and
- Olympus Care Services Ltd.

There are no specific matters to report pertaining to the group audit.

We are also pleased to report that there were no issues to note in relation to the consolidation process.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Additional findings in relation to the Authority's control environment for key financial systems

In our External Audit Interim Report 2016/17 tabled in May 2018, we reported that there were a number of year end controls that we will be testing during our year end audit.

We have since completed the testing of these controls. Issues found include those relating to:

- Payroll starters and leavers;
- IT leaver access revocation;
- Procurement controls including Single Tender Waivers and the Contract Register;
- Journals;
- Payroll Reconciliations; and
- Exit Packages.

We have raised related recommendations in Appendix One.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 August 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

The net impact on the General Fund as a result of audit adjustments is to decrease the balance as at 31 March 2018 by £43 million, resulting in a negative balance of £35.3 million.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

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

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

Given the new and increasing risks and issues facing the Authority we decided to decrease materiality over the financial statements which drove additional testing over the Authority's financial statements. We also enhanced 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 will also reviewed the new financial controls issued with the Section 114 Notice.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External* Audit Plan 2017/18 we reported that there was an increased risk of fraudulent income. We have therefore review the various proposed one-off balance sheet measures to assist with the Authority's outturn position, including the release of reserves and the recognition of income from grants received in advance. These involve areas of judgement by management.

In particular we have reviewed the Public Health Grant, and use of Section 106 and Section 38 monies, and audit adjustments have arisen as a result of this work.

Over the following pages we have set out our assessment of the specific risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas (cont.)

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk per 2017/18 audit plan:

Valuation of PPE & Investment Properties

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.

Our assessment and work undertaken:

The Authority’s accounting policies are for all assets held for sale, investment, and surplus assets to be valued on an annual basis. In addition, Property, Plant and Equipment (PPE) is valued on a rolling 5 year basis.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

Detailed findings:

The five year period began in 2015/16 with the appointment of Wilks Head and Eve. The Authority revalued their assets as of 1 April 2017, the start of the relevant financial year. In order to gain assurance that the value of assets is materially correct at the balance sheet date, 31 March 2018, and are therefore appropriately accounted for within the Authority’s 2017/18 financial statements, the Authority also obtains a ‘Market Review’ report from their valuers, Wilkes, Head and Eve (WHE). This aims to identify any market conditions which have changed, which would indicate increases in valuation or impairment of assets.

Whilst this WHE report did not contain any indication of impairments due to market conditions, it did suggest that market movements had occurred which could potentially impact assets valued under the Depreciated Replacement Cost (DRC) methodology. For these assets, the report suggested there was a general market movement upwards of up to 17% during the course of the year.

In discussion with the Authority, and due to the lack of further audit evidence to provide assurance that valuations therefore remained appropriate, the Authority instructed its valuers to revalue these properties as of 31 March 2018 to ensure they were materially accurate within the 2017/18 accounts. As a direct result of this, a number of amendments were made to the Authority’s 2017/18 financial statements to adjust the assets for the revised valuations. These are detailed in Appendix Three.

In total, the valuation report was prepared in respect of approximately 260 properties with an aggregate value of £399 million and comprising 213 operational assets classified as PPE which are mainly schools and of which 188 are valued using the DRC approach and have an aggregate value of £324 million.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Valuation of PPE & Investment Properties (cont.)

The majority of the remaining PPE assets are valued on the basis of Existing Use Value (EUV). The remaining non-operational PPE assets are classified as either Investment Assets, Surplus Assets or Assets held for Sale and have been valued on the basis of Fair Value (FV).

The valuations have been prepared as at various dates between 1 April 2017 and 12 September 2017 as well as a full desktop revaluation of specialised PPE assets (valued using the DRC method) as at 31 March 2018.

As part of the audit, KPMG’s own in-house valuation expert engaged with the Authority’s property team and external valuer in order to complete our work in this area. This included ensuring the final valuations were consistent with the Authority’s instructions and requirements, and that assumptions made were in line with local circumstances and market conditions.

We have concluded that:

- the valuation reports appear to be in line with the Red Book and the valuer appears to be appropriately qualified and competent to undertake the valuations; and
- the methodology and approach adopted appear to be reasonable and appropriate. The key valuation inputs appear to be supported, justified, and referenced.

We also obtained instructions sent by the Authority to its valuer, and for a sample, agreed the inputs within the valuer’s report. We further agreed the revalued amounts back to the year-end fixed asset register. No significant issues were noted.

Where assets have been reclassified, the Code requires these assets to be valued using a methodology which depends on the final classification. We tested a sample of the reclassified assets, including assets held for sale and surplus assets. No significant issues were noted.

One Angel Square

The Sale and Leaseback of One Angel Square (OAS) was approved by the Authority’s Cabinet on 13 February 2018. At this meeting, Councillors were informed that the transaction was necessary to balance the Authority’s budget for 2017/18 through the capital receipts which would be generated upon disposal. However, the transaction did not go through until after 31 March 2018 and will therefore be reflected in the 2018/19 financial statements. One Angel Square therefore remains on the Authority’s balance sheet as of 31 March 2018.

Following the Cabinet decision to proceed with the transaction in February 2018, it was stated a the valuation had been undertaken into OAS as part of the Authority’s due diligence work leading to the sale and leaseback. We requested as part of our audit evidence, and eventually in July 2018 it was confirmed by the Authority to KPMG that no such valuation had been commissioned by the Authority, and the last valuation of One Angel Square had been obtained on 22 May 2017, the date at which OAS first became operational.

Regardless of whether One Angel Square was due to be sold during the year, the Authority should have obtained a new valuation as of 31 March 2018 to ensure it was correctly reflected in the financial statements after becoming operational in May 2017.

For accounting and value for money purposes, the sale of One Angel Square was confirmed in April 2018, and therefore falls into the 2018/19 financial year and audit.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Valuation of PPE & Investment Properties (cont.)

As a result, we requested that the Authority should obtain a new valuation as of 31 March 2018 for the purposes of year end accounting. This was provided to us on 7 August 2018 and valued One Angel Square at £41.6 million on an Existing Use Value basis.

During the course of the audit, it came to our attention that the Authority’s valuers had been engaged to provide a further subsequent valuation of the same property as of 16 April 2018 on a fair value basis. This was a significantly lower valuation, being £32.4 million, despite being only 16 days later. The Section 151 Officer provided confirmation that this valuation should be disregarded, as it was of an informal indicative nature, undertaken under a different basis of preparation, and had never been used in any management decisions or in any formal decisions made by elected Members. We therefore engaged with the Authority and its valuer again, through discussions with our own internal valuation expert. The Authority’s valuer confirmed that part of this was due to the use of different assumptions based on new information which had come to light / was not available during the initial valuation, and had impacted how they approached the valuation of OAS.

Following this, the Authority’s valuer reviewed its approach and provided a further revised valuation as of 31 March 2018, taking into account this new information which had come to light. This was under the Existing Use Value basis. The valuation was £37.4 million, a £4.2 million decrease to the value within the draft 2017/18 financial statements. This has been adjusted for and further details can be found in Appendix Three.

We are satisfied that this final valuation is in line with the Red Book, was undertaken by an appropriately qualified and competent valuer, and the methodology and approach adopted appear to be reasonable and appropriate. The key valuation inputs appear to be supported, justified, and referenced. We have raised related recommendations regarding the valuation process in Appendix One.

UPDATE – 3 September 2019

Whilst we have previously been aware that the Authority was considering a change in its valuation methodology for OAS and was in discussion with their appointed auditors on this matter, we were under the impression that this related to the Sale and Leaseback transaction, and year end valuation as of 31 March 2019. In August 2019 it came to our attention that the change would be considered would take effect as of 1 April 2018, that is the first day of the next financial year following our sign off accounts relating to the year ending 31 March 2018.

We requested further information from management on the proposed change, and why if this was felt to be an appropriate valuation, it was not included in the 2017/18 financial statements in respect of the valuation of One Angel Square as of 31 March 2018.

Following our request for information the Authority informed us that it is proposing to change the valuation methodology from its current basis of Existing Use Value (EUV) to Depreciated Replacement Cost (DRC).

The impact of this proposed change in approach would be to increase the valuation of One Angel Square as of 1 April 2018, to £47.4 million, an uplift of £10.2 million compared to its valuation as of 31 March 2018.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Valuation of PPE & Investment Properties (cont.)

UPDATE – 3 September 2019 (cont.)

Given the subsequent sale and leaseback of One Angel Square during the 2018/19 financial year, the impact of this increase in valuation, is the ability for the Authority to recognise an additional £10.2 million of capital receipts which can then be utilised under the ‘Capital Flexibilities’ arrangements, as discussed at length in elsewhere in this report and in our previous reporting to the Audit Committee.

The CIPFA ‘Code of Practice on Local Authority Accounting in the UK’ states that in relation to recognition and measurement of Local Authority PPE:

“Infrastructure assets, community assets and assets under construction (excluding investment property – see section 4.4 of the Code) shall be measured at historical cost...all other classes of asset shall be measured at current value...If there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate current value using a depreciated replacement cost approach.”

It is KPMG’s view that One Angel Square is not of a specialist nature (whilst relatively large, the building still effectively remains an office which could be utilised by any other organisation, or multiple organisations), and that there is applicable market based evidence relating to its current value. It is well located for an office building in Northampton, and its previous valuations have been undertaken with reference to comparable market evidence within the same geographical area. The fact that these valuations have been undertaken with comparative ease, and deemed appropriate at the time, does not therefore suggest that there is difficulty in performing valuations under conventional EUV methodology.

As such, we believe the rationale for using DRC as a valuation methodology does not meet the criteria set by RICS in the ‘Red Book’. As such, if this change had been proposed for the current financial year, we would be raising the need for a potential material audit adjustment. We have included this update in this report as we feel the nature of the proposed change so soon after the 2017/18 financial year end and the potential impact on the 2018/19 financial statements is something we should bring to the attention of Those Charged With Governance.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk per 2017/18 audit plan:

Capital Flexibilities and Capital Programme

In 2017/18, the Authority has stated its intention to continue using proceeds from the sale of its capital assets to fund qualifying expenditure, per guidelines issued by the Ministry of Housing, Communities and Local Government (MHCLG, previously DCLG) in March 2016. This is known as the ‘flexible use of capital receipts’ and was introduced in the December 2015 Local Government Spending Review. The Authority first utilised capital flexibilities in the 2016/17 financial year and had initially budgeted £25 million of transformational spend to be met by capital receipts. The Authority’s 2016/17 capital flexibility outturn position was ultimately £21 million. We tested a sample of this expenditure. Our work found that whilst the tested expenditure met the criteria specified within the MHCLG’s guidance, the Authority had not complied with the accountability and transparency requirements of the MHCLG’s guidance. There remains a risk that for the 2017/18 financial year, these accountability and transparency requirements may not be met by the Authority.

Going forwards, the full Council has approved the use of capital flexibilities in the context of the move to a Next Generation Council (NGC) model, with a total balance of £35.6 million. Of this, £17.1 million is yet to be identified for this year.

The Authority’s Financial Peer Review report (published September 2017) states that the “Council’s future financial plans appear to be built with a very optimistic bias as to what can be achieved in general savings and by transformation through the ‘Next Generation Council’ model”. Since then, the Council has paused its transformation efforts through the NGC model and has begun making arrangements to bring its service delivery companies back in-house. None of the initiatives per the Final Budget 2018/19 and Medium Term Plan to 2021/22 involve the NGC model. There is a risk that these capital receipts may be applied to expenditure that is no longer transformational or designed to generate future savings.

A key factor in the increase of anticipated capital receipts in year is the Authority’s decision to sell and leaseback its newly-built headquarters at One Angel Square. This has been agreed by Cabinet in February 2018. There is a risk that a sale may not be completed within the 2017/18 financial year due to the short timeframe, thus unable to be applied to qualifying expenditure. The Authority has proposed an accounting treatment which puts this transaction outside of a SIC 27 financing arrangement and has committed to seeking legal advice on whether the proposed transaction meets the definition of a disposal under Section 9 of the Local Government Act 2003.

Our assessment and work undertaken:

As stated in our Statement of Reasons linked to the Advisory Notice we issued in February 2018, the Authority must be able to demonstrate that expenditure on transformational projects in 2017/18 meets the definition in paragraph 3 of the Capital Flexibilities Direction. The Authority’s budget for 2017/18 was based upon capital receipts of £35.6 million being used to fund what would otherwise be revenue expenditure, pursuant to the Capital Flexibilities Direction.

We also noted that the Authority is obliged in law to have regard to the Statutory Guidance. This means in law that the Authority should follow the Statutory Guidance or be able to put forward a good reason for not so doing. The Statutory Guidance provides that the Authority should have in place and publish a Strategy (the Strategy on the Flexible Use of Capital Receipts). The Authority failed to do this for the years 2016/17 and 2017/18.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Capital Flexibilities and Capital Programme (cont.)

In addition, KPMG believes that the Authority has failed to satisfy paragraph 5.3 of the Statutory Guidance in that Appendix L of the Cabinet report in relation to 2016/17 and 2017/18, did not analyse the degree to which planned savings have, or transformation has, been realised (as required as part of the Strategy for 2018/19).

The Government appointed Inspector's Best Value Report published on 15 March 2018 mirrored this view (paragraphs 3.30 and 3.31), where the Inspector states, "Although there have been reports which set out at high level NCC intentions, there has been no report which complies with the Statutory Guidance."

In our March 2018 external audit progress report we stated that following the evidence provided to us as of that date, we had yet to gain assurance that there is robust governance around the implementation of the Authority's on-going transformational expenditure. It is crucial for the Authority to ensure that there are robust controls, and strong oversight, in place in relation to the use of taxpayer's monies.

Subsequently, we continued to have delays in the provision of this information, but received some initial evidence on 20 April 2018 relating to the 2016/17 transformational programme and the Authority's flexible use of capital receipts.

Following receipt of this, we then raised a significant number of queries with the Authority in relation to its use of Capital Flexibilities, and the projects contained within the breakdown provided to us.

As we noted in our reporting during March 2018, the evidence provided for each transformational project varied depending on the nature of the scheme, however overall there was generally very little evidence and supporting documentation provided to us to support the Authority's overall use of Capital Flexibilities for transformational spending.

As part of our audit request, the Authority was asked to provide details on the specific cost savings each project has achieved. This appears to be the first time that such information was centrally gathered and reported. The Authority utilised £21.0 million of capital receipts in 2016/17 to fund transformational spending. These projects were designed to achieve £16.3 million of savings in year, however, only £8.1 million (50%) was delivered with many projects not delivering any savings at all.

In total £7 million (33% of total projects) was spent on transformational projects that have not delivered any savings in 2016/17 or 2017/18.

Examples include:

- Adult Staff Costs: £702,000 spent, no savings delivered in 2016/17 or 2017/18;
- Place Highways and Transport Transformation Projects: £636,000 spent, no savings delivered in 2016/17 or 2017/18;
- Managing Agent: £495,000 spent, no savings delivered in 2016/17 or 2017/18;
- Race to the Top Programme: £257,000 spent, no savings delivered in 2016/17 or 2017/18; and
- Total Transport: £253,000 spent, no savings delivered in 2016/17 or 2017/18.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Capital Flexibilities and Capital Programme (cont.)

As previously communicated in our 2017/18 audit plan, interim report, and progress reports, our review was not just limited to the use of capital flexibilities within 2017/18, but with new information now available, we were also reviewing those projects funded under this directive in 2016/17. For example, evidence now exists which shows that projects previously presented to audit as time limited one-off projects are in actuality on-going costs which would be required to be incurred by the Authority. They therefore, in our view, do not meet the necessary criteria to be funded via capital receipts.

Following subsequent discussions with Officers, the Authority has confirmed it no longer deems £16.959 million of expenditure to meet the definition of transformational spend as required by the guidance in order to be funded via capital receipts.

Example projects included in the initial transformational spending, but agreed with Officers to not meet the criteria as set down in the guidance and therefore will now be removed and funded as general expenditure include:

- Social Care Agency Placements: £4,450,416
- Residence Orders: £3,751,981
- Internal Professional Support Time Apportionment: £1,064,219
- Place Highways and Transport Projects: £695,737
- Customer Services Web Team: £433,409
- Chief Executive and Directors Time Apportionment: £408,928

This was despite previous confirmations from the Section 151 Officer (S151) and his Officers that these were genuine transformation programmes, which had been through proper governance processes and met the requirements as laid down in the guidance issued from the Department for Communities and Local Government.

We had reported the risks associated with this during the course of our 2016/17 audit, as well as our 2017/18 audit plan, interim report and progress reports. We held numerous meetings with the Authority in advance of the audit, regarding the level of evidence required to justify this expenditure. However, when we came to audit this, there was no evidence provided that these schemes were supported by robust documentation either for internal monitoring purposes or audit purposes. As such, it was considered by us that these were never truly transformational schemes.

Indeed, whilst some transformation projects were ultimately deemed acceptable from an audit perspective, this took an incredibly long time and sustained effort by the audit team to obtain sufficient evidence to support these as it was not readily available, and the Authority had no central process for approving, monitoring or reporting on these.

In our view, it is clear whilst the Flexible Use of Capital Receipts provides an opportunity for Local Authorities to fund genuine investment in transforming services without any impact on revenue, Northamptonshire County Council took this too an extreme to the point of being imprudent due to the financial position it found itself, in.

As a result, this expenditure will need to be funded via general funding. As of 31 March 2018, the Authority had limited funds available to meet any excess expenditure in the year (i.e. there was no surplus, nor other reserves to be drawn down in order to balance its 2017/18 budget). The consequence of this financial position is that the Authority now reports a negative general fund position as of year-end.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk per 2017/8 audit plan:

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, the Authority’s critical financial position necessitates specifically highlighting this as a significant audit risk.

During the year, there have been significant changes in senior management at the Authority, including the Chief Executive Officer and the Group Finance Director (Section 151 Officer). The Authority has utilised interim staff to fulfil these statutory roles. This may have resulted in gaps in the Authority’s control environment given the lack of continuity and consistency in senior management.

In addition, the Section 114 Notice issued in February 2018 introduces new financial controls designed to curb all new expenditure.

Our assessment and work undertaken:

Most of our testing on key areas involving management input was carried out at year end, for example, testing journals and other adjustments, as well as reviewing accounting estimates. These are reported throughout this document.

Additionally, we sought to understand the financial controls introduced with the issuance of the Section 114 Notice (the ‘Section 114 controls’).

On 2 February 2018, the Director of Finance (Section 151 Officer) issued a Section 114 notice, per the Local Government Finance Act 1988. An emergency expenditure control protocol (EECP) was circulated to staff on 6 February 2018. Subsequently, the Authority held a briefing at One Angel Square on 7 February 2018 which confirmed that the Chief Executive and senior management will be meeting several times a week to review all spend; and the Authority will honour all committed spend, but will not enter into new expenditure, with the exception of safeguarding vulnerable people and statutory services.

The EECP introduced the Chief Executive Approval Panel (CEAP). This became operational on 9 February 2018 and meet three times a week (Monday, Wednesday, and Friday).

We reviewed the controls around this as part of our work, and provided an update in our Interim Report 2017/18. We have raised related recommendations in both our interim report and in Appendix One.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk per 2017/18 audit plan:

Fraudulent Revenue Recognition

As with management override of control, this is a specific risk which we are required to consider by professional standards. Typically in local authorities, there are limited incentives and scope to manipulate the way income is recognised. However there is an increased risk of fraudulent income recognition at the Authority due to its current financial difficulties. There are various proposed one-off balance sheet measures to assist with the Authority’s outturn position, including the release of reserves and the recognition of income from grants received in advance. These involve areas of judgement by management.

In the prior year, we raised concerns over income recognition in relation to the Public Health Grant, some of which did not appear to be in scope allowed by the terms of the Grant. In response, the Authority had stated that it intends to review its mechanism for recharges, but has not accepted our recommendation that the Authority should obtain independent external assurance to demonstrate compliance with the terms of the Grant. Since then, Public Health England has confirmed that it is currently investigating the Authority’s use of this Grant.

Our assessment and work undertaken:

Public Health Grant

On 15 June 2018, Public Health England wrote to the Authority to confirm that it had completed its investigation and concluded that the sum of £8.038 million (£3.49 million for 2015/16, £3.763 million for 2016/17, and £0.784 million for 2017/18) of ring-fenced public health grant funding was used to support activities that did not meet the grant conditions. Public Health England requested a response from the Authority on how this amount was to be reinvested.

For the purposes of the 2017/18 financial statements, the Authority had only disclosed a contingent liability in respect of possible repayment of the Public Health Grant. This effectively is simply a disclosure and does not impact balances within the accounts. In discussion with Officers, it was confirmed that a provision was deemed more appropriate but this had not been transacted as the Authority did not have the money to account for this as such within the accounts.

On 9 July 2018, the Authority replied to Public Health England and confirmed that to settle this matter, it was proposing to reinvest £7.9 million in public health activities, via the Public Health reserve, over a period of five years in equal instalments.

Following further discussions with the Authority, Officers have decided to amend the draft financial statements to reflect a provision for the Public Health Grant as of 31 March 2018. This is a change from the previously disclosed contingent liability. As a result of this, there will be an impact on the Comprehensive Income and Expenditure Statement (and therefore general fund balance) of £7.9 million.

In response to this issue, we extended our audit testing over other ring-fenced grants and requested evidence from the Authority that all terms and conditions for such streams of funding have been adhered to, and there is no other on-going disputes regarding possible clawback of public funds. Based on our testing, there were no other material audit issues we wish to report.

The audit adjustment is detailed in Appendix Three. Related recommendations are found in Appendix One.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Fraudulent Revenue Recognition (cont.)

Section 106 monies

As previously reported in our External Audit Report 2016/17, the Authority utilised £9 million of Section 106 funding within its 2016/17 accounts, as approved by Cabinet on 16 May 2017 under "income prioritisation". The May 2017 Cabinet report stated that *"Following a S106 income review, and receipt of Counsels opinion and advice, developer contributions set aside to fund future educational improvements within the County, will be re-financed through Council borrowing. This will enable the Council to continue to fully fund its S106 obligations, and also to mitigate the in-year Children's Service demand pressures within revenue budgets."*

The Monthly Financial Report to Cabinet in March 2017 approved this use of resources and delegated powers to the S151 Officer in consultation with the Cabinet Member for Finance to utilise these resources where appropriate. A further £4.5 million of S106 funding has been utilised in 2017/18. During the course of our on-going audit work, further information and evidence was provided to us in respect of Counsel's legal advice, and the application of this by the Authority. Instructions to Counsel made reference to the necessity to consider each S106 agreement in respect of individual specific obligations and time limits etc. Counsel's legal advice to the Authority stated that it is the terms of the obligations themselves which appears to constrain the use of the contribution, applying the principles of contract law.

For example, these conditions may prohibit the use of funding to capital projects only, or to specific projects or expenditure including that restricted to clearly particular schools or geographical areas. It may therefore be possible to use some of the monies for revenue expenditure where the context allows, but there is no general principle that allows such money to be used to reinforce revenue expenditure.

Within this context, the Authority was unable to provide sufficient and appropriate audit evidence to demonstrate it had complied with Counsel's advice. Specifically, the Authority did not review the terms and conditions of each individual S106 contribution, and it had not assessed whether they met the criteria provided by Counsel which would allow a more general utilisation of the funds. This disregarded important legal advice relating to the use of specific funding for general purposes, and resulted in a material audit adjustment. Following further discussions with Officers, the Authority confirmed it no longer wished to pursue the recognition of such revenue from S106 monies to fund general expenditure. It therefore proposed reversing this from the accounts. The total reversal of S106 monies is £9 million used in 2016/17 and £4.5 million used in 2017/18, a total of £13.5 million.

Audit adjustments are detailed in Appendix Three, related recommendations in Appendix One.

Section 38 monies

As above, the Authority had previously accounted for the use of £2.8 million of Section 38 Highways contributions to fund non-specific expenditure. Following subsequent discussions with Officers, the Authority confirmed it no longer wished to pursue the use of this S38 money to fund general expenditure. It has therefore reversed these contributions from the draft financial statements. The total reversal of S38 monies is £2.8 million utilised in 2017/18. As a result of this, and the lack of other mechanism to fund the expenditure previously accounted for via S38 grants, this will contribute to the Authority's negative general fund balance as of 31 March 2018.

Audit adjustments are detailed in Appendix Three, related recommendations in Appendix One.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk per 2017/18 audit plan:

Best Value Report and Going Concern

On 15 March 2018 the Ministry of Housing, Communities and Local Government published a Best Value Report on Northamptonshire County Council. The Inspector has concluded that the issues identified are “now so deep and ingrained that it is not possible to promote a recovery plan that could bring the council back to stability and safety in a reasonable timescale”. Further to that, the Inspector stated that, “a way forward with a clean sheet, leaving all the history behind, is required”.

As a result, the Inspector recommended a two unitary model which may mean that the existing County Council and the borough/district councils within the county may cease to exist and be replaced by two unitary councils.

Although the Code states that the accounts should be prepared on the basis of going concern, our responsibilities as the Auditors include obtaining sufficient audit evidence to conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority’s ability to continue as a going concern. We will consider the impact of the Best Value Report as part of our evaluation of management’s going concern assessment.

Our assessment and work undertaken:

The Council has prepared its annual 2017/18 Statement of Accounts under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Code includes the requirement that local authorities have to produce their Statement of Accounts on the basis of the Authority being a going concern. Paragraph 2.1.2.6 of the Code states that “an Authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.”

As part of our audit work we have assessed whether there is a material uncertainty within the financial statements which could cast significant doubt on the Authority’s ability to continue as a going concern. Northamptonshire County Council had a long running underlying structural deficit of over £100 million up to the financial year ending 31 March 2018.

Other Going Concern considerations include the fact that as an organisation, the County Council is due to cease to exist as of April 2021 with the implementation of two Unitary Councils within the geographical boundaries of Northamptonshire.

We draw attention to the Authority incurring a reduction of £47.025 million in its General Fund balances for the year, having net current liabilities of £280.055m (2016/17, £196.983m), and net liabilities of £358.169 million (2016/17, £322.744 million). The Authority’s basis of preparation note within the accounts indicates that the Authority’s ability to continue as a going concern is dependent on the Authority improving its cash liquidity, improving its financial sustainability in the short to medium term and the impact of the proposed abolition of Northamptonshire County Council and the creation of two new Unitary Councils from April 2021.

Authority’s Assessment

However, due to the financial circumstances which the Authority is currently operating it decided to produce a going concern assessment in January 2019 to reaffirm its basis as a going concern. This also fulfils the requirements of international accounting standard IAS1, paragraph 25, for the management of an organisation to produce an assessment of the organisation’s ability to continue as a going concern.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Best Value Report and Going Concern (cont.)

This further report is an update to the positive going concern assessment provided to the Audit Committee on 14 June 2018, and was refreshed to take account of the expected outcome of this external audit.

The Authority notes that paragraph A26 of the CIPFA Guidance Notes for Practitioners 2017/18 Accounts, which accompanies the Code, states that: “Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.”

Likewise, paragraph A28 of the CIPFA Guidance Notes continues: “The substantial resource issues that some authorities may be experiencing do not negate the presumption of going concern, even though there might be a tension between the going concern assumption and those resource issues. Authorities should ensure that, where required, appropriate reference to financial resilience and sustainability is included in the relevant reports. The Authority’s relevant officers (e.g. the responsible finance officer and monitoring officer) must also ensure that they comply with their statutory and professional duties in respect of reporting such resourcing issues.”

Liquidity

The Authority notes that the increase in the Authority’s General Fund deficit caused by the amendments to the 2017/18 financial statements does not change its cash balance as of 31 March 2018. At this date, the Authority had net current liabilities of £280 million, which includes £255 million of short term borrowing. The Authority’s current Treasury Management Strategy is to borrow short term to finance its capital investment programme to take advantage of lower interest rates. The Authority informed us that it could replace this by much longer term borrowing, if it chose to do so, thereby improving its net current liabilities, and that it also has access to finance via the Public Works Loans Board.

The Authority’s Treasury Management Advisors undertook a detailed balance sheet review at 31 March 2018. The Authority states that the review demonstrated that it was well below its underlying capital borrowing requirement by £91 million.

Therefore, if required, the Authority considers that it could borrowed a further £91 million to fund its capital borrowing requirement entirely from external borrowing, bringing additional cash back into the organisation. Furthermore, the Authority sold its main office building, One Angel Square, for £64 million in April 2018. The Authority therefore states that it believes these factors demonstrate that the Authority has available cash resources or access to borrowing to pay commitments.

Financial Sustainability in the short to medium term

The Authority notes that with the support of the Commissioners appointed by the Secretary of State, it approved a Stabilisation Plan on 9 October 2018 that is aimed at addressing the in-year budget deficit. In addition the Authority was advised by Ministry of Housing, Communities and Local Government on 28 November 2018 that it was successful in its application for a direction to treat revenue expenditure as capital expenditure.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Our assessment and work undertaken:

Best Value Report and Going Concern (cont.)

The Direction is worth up to £70 million and has three components:

- The recovery of the deficit at 31 March 2018 i.e. £35.4million;
- The creation of an unallocated revenue reserve of £20million; and
- The balance to be used to manage the risk that the financial savings in the Stabilisation Plan are not realised in full in 2018/19.

The Authority approved its Medium Term Financial Plan from 2019/20 to 2021/21 at the Council meeting on February 2019.

Unitary

Paragraph 2.1.2.6 of the CIPFA Code states that “transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of that the financial statements shall be prepared on a going concern basis of accounting.”

Paragraph A25 of the CIPFA Guidance Notes for Practitioners reiterates that: “The concept of a going concern assumes that an authority’s functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.”

The Authority considers therefore, that if a statutory order is taken by the Secretary of State to abolish Northamptonshire County Council and create two new Unitary Councils, then the functions of the Authority will continue in operational existence for the foreseeable future, and does not negate the presumption of the Authority being a going concern.

Conclusion:

We have reviewed these events and conditions, along with the other matters explained in the basis of preparation note (page 28 to the accounts), and following extensive consultation confirm that we do not believe in the current circumstances they constitute a material uncertainty in relation to the Authority’s ability to continue as a going concern.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk per 2017/18 audit plan:

Recalculation of the Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is a concept unique to local government, and is a statutory requirement under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The MRP is the minimum amount that must be set aside by the Authority each year to pay for capital expenditure initially financed through borrowing.

Local authorities are allowed a degree of flexibility in calculating its MRP across four different recommended methods. The Authority’s choice in methodology significantly affects the amounts it needs to set aside each year. The Authority needs to ensure that the amounts set aside each year should be “prudent” with regard to its Capital Financing Requirement (CFR).

The Authority last undertook a review of its MRP charges in 2014/15, which generated a saving of £6.9 million to mitigate overspends in that same year. There was no change in the existing MRP policy during this exercise. In March 2018, we became aware that the Authority is proposing to recalculate MRP to achieve a saving of £8 million in 2017/18. On 22 March 2018, the full Council approved changes to its MRP policy in order to achieve these savings. Given the use of a technical adjustment to assist with the year-end outturn position, we will need to consider the technicalities and legal implications of this proposal.

Our assessment and work undertaken:

In January 2018, the Authority engaged external treasury management specialists, Link Asset Services, to undertake a review into its Minimum Revenue Provision (MRP). The objective of the review was to profile MRP for the repayment of its underlying debt liability, in line with the life of the assets associated with that debt in order to achieve a benefit to the General Fund and assist with easing budget pressures, whilst ensuring that the provision remains prudent and compliant with statutory guidance for MRP for repayment of its debt liability.

The MRP review undertaken identified that an adjustment could be made to the MRP charged in 2017/18 and future years going forward. The previously adopted policy by the Authority was to apply the 4% reducing balance method from 2007/08 onwards which was when the guidelines originally changed. In 2015/16, the Authority adopted the change to the annuity method for unfunded capital expenditure prior to 2008, but did not apply this change in method to their liability from 1 April 2008 to 31st March 2015.

The change in 2017/18 therefore represents the method which had been previously approved and adopted by the Authority being applied to the historic debt which is permitted under DCLG guidance. The figures for this have been calculated by LAS whom we have assessed as an external expert. The 2017/18 was the last year such changes can be made, and therefore given the underlying circumstances of the Authority’s financial position there was a decision made to reduce the MRP charge as much as possible in order to provide an immediate in-year saving. The Authority’s decision to change its approach also means that these apply going forward over the length of the Medium Term Financial Plan.

This adoption of all the MRP Policy resulted in a reduction of the MRP charges of up to £9.9 million in 2017/18. In addition over the long term the impact of using a net present value calculation demonstrated a potential saving to the Authority of £27.5 million over a 60 year period. The change was approved at Council in March 2018. We engaged our own local authority finance specialist, who assisted us in our review of the Authority’s proposal. We undertook a review of the proposals by the Authority, checked this against relevant accounting standards and the Code requirements. We held meetings with both key finance Officers and representatives from Link Asset Services. There were no significant issues arising.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk per 2017/18 audit plan:

Pension Liabilities

The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of the Northamptonshire County Council Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority’s overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary. As part of this work we assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Hymans Robertson.

We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges, and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and re-performed this allocation.

As a result of this work we are satisfied that the net pension liability has been appropriately accounted for by the Authority.

Specific audit areas (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue:

Procurement and contract management

Non-pay expenditure is a significant part of the Authority’s expenditure. Given the Authority’s current financial situation, it is important that the Authority achieves value for money via its procurement process. Discussions with the Authority’s internal auditors have highlighted that this is also an area of focus.

Our assessment and work undertaken:

The Authority incurred £699 million of non-pay expenditure in the year. The vast majority of this, £626 million, was via the accounts payable system. As per our 2017/18 External Audit Plan, our intention was to audit this significant area of testing via the use of data analytics auditing techniques.

Part of our original planned audit testing over accounts payable was based on the use of data analytics. However, following significant delays to the provision of the data (initially requested as part of our Prepared by Client request in January 2018), we only received the complete set of data and supporting information to perform our testing on 2 October 2018.

Following completion of our initial audit procedures, we have raised a number of queries with the Authority regarding the exceptions identified in our findings. We were provided with responses to our initial queries on the 9 November 2018, and following this, we raised a number of follow-up queries requiring further information and clarification based on the original responses. This included the need to undertake sample testing.

As part of our audit testing approach, we required the Authority to provide a breakdown of the value of expenditure within this balance which related to the accounts payable system (thereby covered by data analytics work), and which related to manual (journal) transactions, or from other sources. On receiving the working papers and analytics data from the Authority in October 2018, the reconciliation provided by the Authority confirmed that a significant proportion of the balance (approximately £72 million) related to manual adjustments undertaken by the Authority (i.e. journals), and transactions from other sources (e.g. receivables and payroll).

To gain assurance that this expenditure is accurate, complete and appropriate we have had to perform extended audit sample testing on this complex area. We, however then also incurred significant delays in the provision of responses from the Authority’s Officers to our audit samples. All of these delays, as well as the original provision of the specific data fields request had a significant knock-on effect in relation to the audit completion timetable for the 2017/18 audit.

On final completion of our work in this area, there were no significant issues arising.

Specific audit areas (cont.)

Other areas of audit focus (cont.)

Issue:

Early closedown and signoff

The Authority is required to produce its draft financial statements by end May 2018. This shortens the time available to the Authority by two months. The Authority carried out a trial run in the 2016/17 year which resulted in the accounts being signed early. However, there is still a risk that the Authority may not meet the new statutory deadline, particularly given the additional scrutiny and increased risk profile which events over the recent weeks have caused. The decrease in our materiality and additional testing has been driven by the increased risk profile at the Authority. This will result in enhanced audit procedures.

Our assessment and work undertaken:

Following receipt of the published 2017/18 draft financial statements in June 2018, we commenced our work on reviewing the accounts for casting and consistency, alongside our main audit work. We fedback to the Authority a number of errors and omissions, which were included in our audit tracking document. We agreed with the Authority that another version of the accounts was not required until later during the audit process, as an updated set of accounts would also need to include any adjustments arising from our audit fieldwork.

We received an updated set of draft 2017/18 accounts from the Authority on 24 October 2018. These were immediately reviewed by the audit team for casting and consistency checks. The result of this review was fed-back to the Authority.

We did not receive an updated version of the accounts again until 11 April 2019 despite previous communications that we would receive this towards the end of February / start of March 2019. We again reviewed these for casting and consistency checks, and fedback changes required to ensure that all agreed audit adjustments and presentational amendments were included in the updated version.

In providing these review points, we had informed the Authority that we would need the revised set of 2017/18 accounts back by the end of April 2019 in order for us to perform our work in a timely manner, to meet the agreed Audit Committee date of 18 June 2019.

However, significant delays occurred again and we only received a further updated version of the accounts on 11 June 2019. These were presented to us as the final version for sign-off, and we were told that these had been thoroughly quality checked before being passed on for audit purposes. We immediately began our checking again, however, on 17 June 2019, whilst we were part-way through our final procedures, the Authority informed us that there were still errors and omissions within this version, and that a new, revised version would be provided for audit purposes. We received this on 18 June 2019.

The delay in receiving this final version of accounts, has caused significant delay to the overall closedown of the audit process. We have made it clear to Officers that from the receipt of the final version of the accounts, we would need two clear weeks to perform our final checks on the document, and a further week to complete our other procedures. This has therefore put a strain on the lead up to this July 2019 Audit Committee, as Officers requested two weeks to respond to the draft of this External Audit ISA260 report, with Members requesting another two clear weeks to absorb the messages prior to the Audit Committee.

Specific audit areas (cont.)

Other areas of audit focus (cont.)

Issue:

Redundancy packages

During the year, a number of senior officers have ceased employment at the Authority. The Authority is required to comply with relevant legislation and disclosure requirements when calculating termination benefits.

Our assessment and work undertaken:

A number of senior Officers left the organisation during the 2017/18 financial year and subsequently in the course of the audit. This included a previous permanent Chief Executive, as well as two temporary Chief Executives, a Section 151 Officer (s151), and the former Managing Director of LGSS who was an Authority’s employee.

However, in a similar way to historical concerns we have raised, the Authority was unable to demonstrate that a robust governance process was in place to appropriately challenge, calculate and agree all of these exit packages, and obtain the appropriate required approvals.

For example, in reviewing the specifics relating to the exit of the Managing Director of LGSS, we requested audit evidence regarding how the exit package had been calculated and agreed, and what governance processes had been followed to arrive at that result.

During the course of the audit, the Authority was unable to provide robust evidence documenting this process, and no official paperwork was provided to audit by officers who were in post at the time of our audit, as the key individual who negotiated the exit package had since also left the organisation

The exit of the previous permanent Chief Executive was a decision taken by the former Leader in consultation with Cabinet, following advice from Officers. An agreement was reached for the departure of the previous permanent Chief Executive, in accordance with this advice, including the nature and value of the settlement.

We reviewed the Authority’s process for agreeing a settlement agreement package with the previous permanent Chief Executive, and confirmed that appropriate calculations had been made to derive certain figures such as pay in lieu of notice.

We noted that an element of pay, as for other ‘exit packages’ include holiday entitlement not taken. We were unable to gain assurance over this calculation as there is no central tracking or authorisation of annual leave taken during the year against individual’s entitlements, and therefore no auditable trail of evidence to confirm what the holiday balance for any employee is at any point in time.

We have raised related recommendations in Appendix One.

Proposed opinion and audit differences

Our audit work is still on going. It is our intention to issue an unqualified opinion to the financial statements following the adjustment of the draft accounts to reflect the audit differences arising as a result of our work. and the audit opinion has not been determined at this stage.

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 4) for this year's audit was set at £5.4 million. Audit differences below £270k are not considered significant.

Our audit to date has identified a number of significant audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables below illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2018. The net impact on the General Fund as a result of audit adjustments is to decrease the balance as at 31 March 2018 by £35.3 million, resulting in a negative balance of £35.3 million. This is mainly the result of the following amendments:

- Inclusion of Public Health Grant provision based on expectation of repayment – £8 million.
- Reversal of capital receipts to fund revenue expenditure, deemed non-transformational – £17 million.
- Reversal of S106 monies used to fund general expenditure – £13.5 million.

In addition, we identified a large 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 2017/18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Movement on the General Fund 2017/18			Balance Sheet as at 31 March 2018		
£'000s	Pre-Audit	Post-Audit	£'000s	Pre-Audit	Post-Audit
Deficit on the provision of services	117,897	129,419	Property, Plant & Equipment	1,139,012	1,184,478
Adjustments between accounting basis and funding basis under regulations	103,125	73,917	Other long term assets	55,423	54,234
Transfers to earmarked reserves	10,954	10,954	Current assets	139,872	138,936
Transfers from earmarked reserves	(11,372)	(16,111)	Current liabilities	(409,527)	(418,991)
			Long term liabilities	(1,310,795)	(1,321,135)
			Net worth	(386,015)	(362,479)
			General Fund	0	(35,304)
			Other useable reserves	54,825	66,395
			Unusable reserves	(440,840)	(393,570)
			Total Reserves	(386,105)	(362,479)

All adjustments can be found in **Appendix Three**.

Proposed opinion and audit differences (cont.)

Annual Governance Statement

We have reviewed the Authority's 2017/18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

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

Narrative Report

We have reviewed the Authority's updated 2017/18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Annual Report

We have reviewed the Authority's 2017/8 Annual Report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.



Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Northamptonshire County Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Northamptonshire County 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 6 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 will provide a template to the Section 151 Officer for presentation to the Audit Committee once audit work is complete. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, 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 2017/18 financial statements.

Section two

Value for Money Arrangements



Specific value for money risk areas

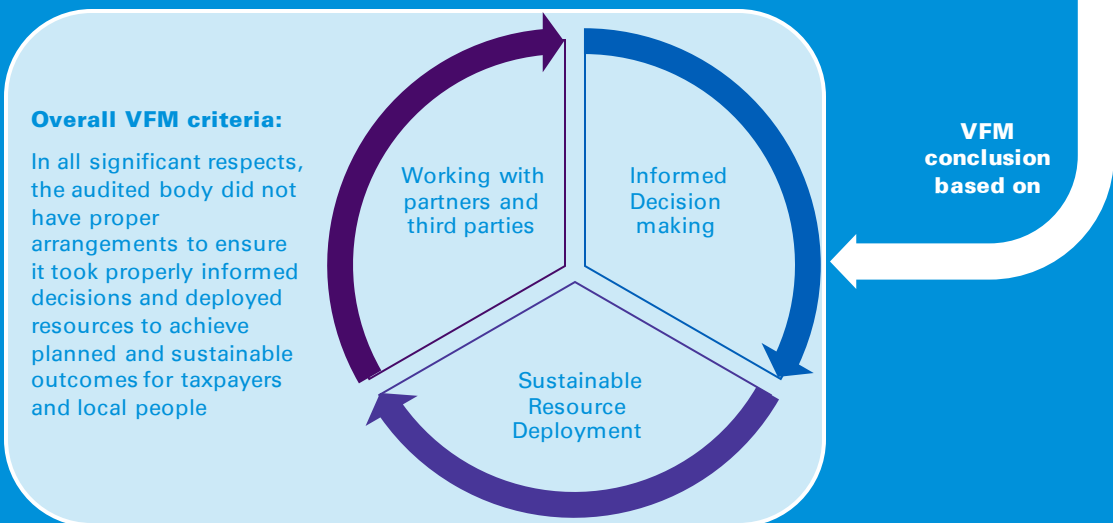
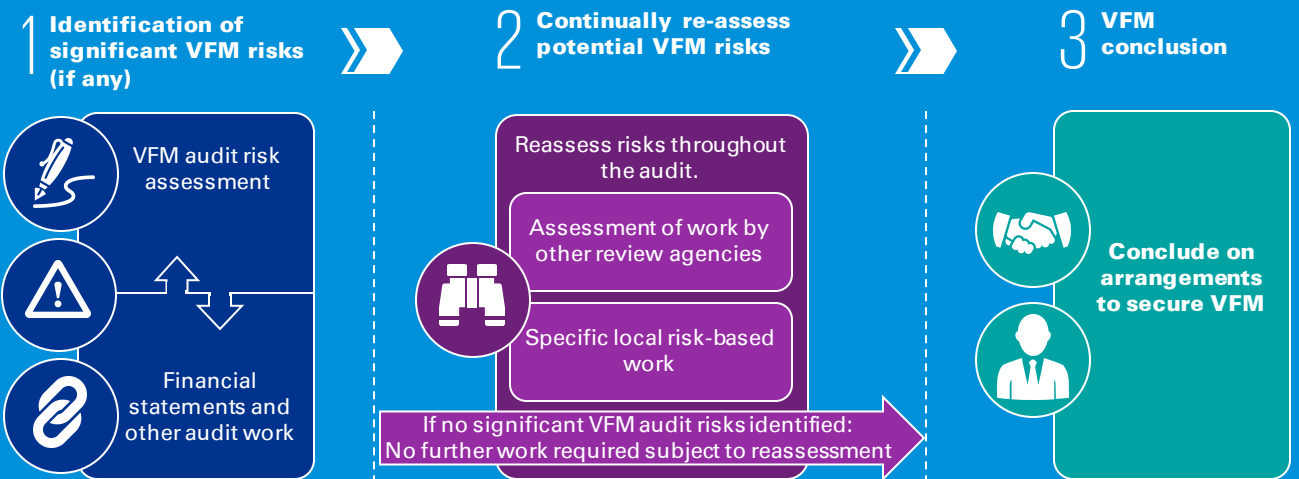
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has not made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Section two: Value for Money arrangements

Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets			
Financial Resilience			
Capital Strategy			
Cost Savings Plans			
Transformational Plans and Capital Flexibilities			
Risk Management			
Off-Payroll Working			
Chief Executive Payment			
Financial Peer Review and Action Plans			

In consideration of the above, we have concluded that in 2017/18, the Authority has not made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Further details on the work done and our assessment are provided on the following pages.



Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017/18*, and as updated throughout the audit, we have identified nine significant VFM risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In some cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

We have highlighted those risks which were identified after we presented our *External Audit Plan 2017/18* in March 2018.

Risk:	<p>Delivery of budgets</p> <p>In February 2018, KPMG, as appointed auditors to Northamptonshire County Council issued an Advisory Notice to the Authority in accordance with Section 29 and Schedule 8 to the Local Audit and Accountability Act 2014 on the basis that the Authority had begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, further to paragraph 1(1)(b) of Schedule 8.</p> <p>KPMG was mindful in this regard of its responsibility to come to a conclusion on the Authority's arrangements for securing value for money in the use of its resources for the financial year ending 31 March 2018. The Authority's arrangements include making properly informed decisions and sustainable resource deployment and therefore the need to consider appropriately the deliverability and achievability of the budget that it looked to set for the financial year 2018/19.</p>
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criteria:</p> <ul style="list-style-type: none"> — Informed decision-making; — Sustainable resource deployment; and — Working with partners and third parties
Our assessment and work undertaken:	<p>2018/19 BUDGET AND ADVISORY NOTICE</p> <p>As a result of this notice, the Authority was unable to lawfully continue with the budget setting process it had put in motion for 2018/19, until it had considered the Advisory Notice, the Statement of Reasons and the consequences of continuing with the budget as initially presented to Cabinet on 13 February 2019.</p> <p>At this time, the Authority was proceeding on the basis of the paper entitled "Final Budget 2018/19 and Medium Term Plan to 2021-22", which was put to, and recommended by Cabinet on 13 February 2018.</p> <p>It was our view that, the Authority's estimate of the expenditure which it will incur in 2018/19 was or would be unlawful and give rise to an unlawful decision as to the Authority's council tax requirement for 2018/19 under Section 42A(4) of the Local Government Finance Act 1992.</p> <p>In particular this was in consideration of the expenditure which the Authority intended to treat as capital expenditure for 2018/19 in relation to the 'Flexible Use of Capital Receipts' as noted above, and the historical reliance on this for the financial outturns reported for years 2016/17 and 2017/18.</p>

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Delivery of budgets (cont.)

2018/19 BUDGET AND ADVISORY NOTICE (cont.)

The Authority's originally proposed budget for 2018/19 was premised upon it meeting its revised budgeted net revenue outturn of £416.8 million in 2017/18. However, the Cabinet report dated 16th January 2018 and entitled "Quarterly Revenue Finance (Q3) Report to Cabinet" projected net overspends of £10.3 million in 2017/18 including an overall overspend of £13 million in its demand-led services such as Adult Social Services and Children, Families & Education.

The Authority also faced difficulties in achieving its planned savings target for 2017/18 of £57.8 million. These factors meant at the time that the budgeted revenue outturn for 2017/18 would only be achieved if the Authority was able to utilise £35.6 million of expenditure on transformational or savings projects ("transformational projects") under the Capital Flexibilities Direction.

This, in turn, was at the time dependent on the Authority lawfully achieving the sale and leaseback of One Angel Square, its head office, such that it would be entitled to recognise the capital receipts accruing from that transaction in 2017/18.

Further, planned use of capital receipts would not be achievable if the lawful sale and leaseback of One Angel Square would not be agreed before the end of the 2017/18 financial year.

The uncertainties surrounding the outcome of both of these elements of the Authority's finances should have been factored into its consideration of the 2018/19 budget and the setting of its council tax requirement for that year.

As at February 2018, if the Authority was unable to lawfully to sell One Angel Square in such a way as to realise a capital receipt in the 2017/18 year, then that would have also impacted upon the deliverability of the proposed budget for 2018/19.

In setting its original 2018/19 budget, the Authority continued to face projected increases in demand within its key service areas such as Adult Social Services and Children, Families & Education in 2018/19.

Original savings targets in 2018/19 totalled £29.3 million, and the Authority was relying upon sufficient capital receipts to enable £40.9 million of qualifying transformational expenditure, which would otherwise be revenue expenditure, to be treated as capital expenditure.

This accounting treatment, further to the Capital Flexibilities Direction, was seen as key to mitigating the funding increases required (at a time when Central Government funding to local government has been decreasing year on year) to deal with these increases in demand.

In addition, in February 2018, the Authority's budget for 2017/18 was based upon the capital receipts of £35.6 million being used to fund what would otherwise be revenue expenditure, pursuant to the Capital Flexibilities Direction. Approximately half of that figure had, in February 2018, been attributed to what the Authority deemed to be qualifying transformational projects, and the Authority was at the time looking to identify a further £17.1 million of qualifying transformational expenditure in order fully to utilise the anticipated capital receipts.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Delivery of budgets (cont.)

2018/19 BUDGET AND ADVISORY NOTICE (cont.)

The Authority’s original proposed budget for 2018/19 was predicated on the use of planned capital receipts of £40.9 million pursuant to the Capital Flexibilities Direction. This, in turn, was also dependent on achieving the lawful sale and leaseback of One Angel Square in the current financial year and therefore having carried forward capital receipts to fund transformation in 2018/19, as well as the sale of further, currently unidentified, assets worth £27.5 million which were planned to be disposed of during 2017/18 and/or 2018/19. It was a figure of £40.9m which we believed not to be achievable, and therefore which entailed that the proposed budget was premised on an incorrect estimate of likely revenue expenditure in 2018/19 given the majority of the funds from the planned sale were planned to be drawn down to fund spending in that forthcoming financial year.

The Authority published its list of proposed savings plans for 2018/19, but did not establish at that stage whether any of these savings would be a result of the, currently unidentified, transformational projects for 2017/18.

The Authority had also yet to undertake and publish within its Strategy a full review of transformational projects approved in previous years, as required by the Statutory Guidance, including a commentary on whether the planned savings or service transformation had been or were being realised in line with its initial analysis.

Good practice requires transformational projects to be overseen, monitored, and reported on a regular basis to those charged with governance in order to provide assurance that they are on track, properly managed, and delivering planned outcomes. The Guidance on the Flexible Use of Capital Receipts also states that It is important that individual authorities demonstrate the highest standards of accountability and transparency.

These factors combined indicated a lack of prudence in financial planning and the absence of robustness in discharging the accountability and transparency requirements of the Statutory Guidance.

At the point of publishing the original budget for 2018/19, the Authority had a total budget gap (i.e. the difference between its in-year funding levels and expenditure) of £70.2 million, comprising of £40.9 million of planned capital receipts under the Capital Flexibility Direction and £29.3 million of planned savings. Failure to achieve the savings or capital receipts planned for 2017/18, or to identify the full projected amount of £35.6 million of qualifying transformational expenditure would therefore result in further savings being required in 2018/19.

The Authority’s previous service delivery plan via the federated subsidiaries Model (“Next Generation Council”) was designed to enable services to move away from direct delivery by the Authority and for those services to establish themselves as new organisations commissioned by a far smaller core to achieve its desired outcomes. However, this model has not produced the desired results as evidenced by significant cost overruns in both Adult and Children’s services within the subsidiary model established.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Delivery of budgets (cont.)

2018/19 BUDGET AND ADVISORY NOTICE (cont.)

The Authority's business plans included within the Model have been described by the September 2017 Local Government Association (LGA) Financial Peer Review as having been built with "very optimistic bias". Significant costs were incurred in setting up these federated subsidiaries, some of which were met by the use of capital receipts under the previous Capital Flexibilities Direction in 2016/17. Two of the Authority's subsidiaries (Northamptonshire Trading Limited and Olympus Care Services Limited) have now been reintegrated back into the Authority during 2018/19, and this incurred further costs and operational and organisational disruption.

During the 2017/18 financial year the Authority had also not developed nor implemented a comprehensive action plan in response to issues raised in our 2015/16 and 2016/17 External Audit Reports and our two adverse VFM arrangements conclusions relating to those years.

For example, we concluded in 2016/17 that overspends in year were often a result of demographic pressures and increases in demand not forecast during budget setting. This repeats the pattern seen in previous financial years of the lack of robust financial forecasting by the Authority for its demand led services.

Despite reduced Central Government funding in previous years, the Authority made the decision not to increase its council tax precept beyond the maximum allowable (without a referendum) in both 2015/16 and 2016/17. The Authority's Band D increase was 1.95% in both years (excluding the Social Care Precept of 2%). In setting the 2017/18 budget, the Authority again elected to raise Council tax by 2% (excluding the Social Care Precept). One of the results of these past decisions was that, at the end of January 2018 when setting the budget for 2018/19, the Authority only had £17.8 million of General Fund reserves available to it.

In addition, there had not been a comprehensive and transparent exercise by the Authority to identify and cost its statutory services, which would help it to identify further potential savings. Previous proposals to make savings via reductions in non-statutory services were reversed in the weeks leading up to the original draft budget. Additionally, there had not yet been a fundamental review of the Authority's demand-based budgets in key areas of overspends, such as Adult Social Services and Children, Families & Education. These budgets may still contain elements of expenditure relating to non-statutory services.

Conclusion

Under the Local Audit and Accountability Act 2014 and the 2015 Code of Audit 4.Practice, the auditor is required to reach a conclusion each year as to whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ("the value for money (VFM) arrangements conclusion"). In respect of both 2015/16 and 2016/17, KPMG concluded that the Authority did not have adequate arrangements in place and issued adverse VFM arrangements conclusions.

The summary of our VFM arrangements conclusions for both 2015/16 and 2016/17 are detailed within our External Audit Reports (ISA 260 reports), which are available on the Authority's website. Our ISA 260 reports summarise and report key audit findings to those charged with governance.

Since we reached these conclusions, the Authority's financial position in 2017/18 continued to significantly deteriorate.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Delivery of budgets (cont.)

2018/19 BUDGET AND ADVISORY NOTICE (cont.)

In conclusion, we have reviewed the arrangements in place to manage and deliver financial savings under increasingly difficult circumstances, including critically assessing the Authority's financial standing and reviewing the robustness of its Medium Term Financial Plan. This included reviewing the delivery of the Authority's savings programme and any mitigating actions taken, and evaluating the arrangements the Authority have in place to identify further savings for future years.

We have met regularly with the Section 151 Officer (S151) and key staff to understand the Authority's financial position and assess the adequacy of the Authority's arrangements.

We have considered and reviewed the judgements which were made in drafting its 2017/18 financial statements, including those actions which have now been reversed, resulting in a negative general fund position.

The historical reliance on one-off funding mechanisms to bail the Authority out of its difficult financial situations during prior years became, as we warned on numerous occasions, unsustainable. The Authority suffered furthermore by the lack of a genuine savings programme delivering long-term transformation in the way it delivered its public services. Had such a programme been enacted, planned and governed robustly over the past 4-5 years, the Authority would have found itself in a more secure financial position than it did during the 2017/18 financial year.

Instead, it could be said that the Authority and Officers had no genuine robust and actionable plans to deliver genuine transformation, and were never held properly accountable when the plans which were enacted did not deliver the savings required, nor made services more effective and efficient.

The few genuine savings programmes enacted by Officers were not sufficiently robustly designed, and were based on business cases which did not receive proper challenge nor due diligence. The continued lack of savings generated by the 'Next Generation' Council or the move to One Angel Square is testament to this.

As a result of all this, Officers were left with a choice. They could either draft a set of financial statements which reported a negative general fund position, or they could attempt to use further one-off measures and accounting judgements and treatments to produce what appeared to be on the face of it, a balanced budget.

As reported above, ultimately the majority of these accounting judgements and treatments were required to be unwound.

Despite several warnings from us as the Authority's external auditors regarding the on-going use of Capital Flexibilities and the evidence threshold required to be able to 'pass the test' set out in the direction, Officers continued a course of action which resulted in the capitalisation of £20+ million in the belief that these would meet the requisite audit requirements.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Delivery of budgets (cont.)

Conclusion (cont.)

Ultimately, the Authority was unable to provide sufficient and appropriate evidence that many of these schemes were transformational in nature, and therefore as a result of this, these transactions alongside those relating to S106 monies, S38 monies, and other areas, had to be unwound from the 2017/18 accounts in order to properly reflect the 'true and fair' position the Authority had actually achieved in 2017/18, that of a negative general fund balance of £43 million.

As a result of the work and the reviews that we have undertaken, we are unable to state that in 2017/18 Northamptonshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore expect to issue an adverse 2017/18 value for money opinion.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Financial Resilience</p> <p>Background</p> <p>In respect of both 2015/16 and 2016/17, KPMG concluded that the Authority did not have adequate arrangements in place and issued adverse VFM arrangements conclusions. The summary of our VFM arrangements conclusions for both 2015/16 and 2016/17 are detailed within our External Audit Reports (ISA 260 reports).</p> <p>Our ISA 260 reports summarise and report key audit findings to those charged with governance. Since we reached these conclusions, the Authority’s financial position has significantly deteriorated.</p> <p>In 2015/16, the Authority reported overspends in Adult Social Care of £8.5 million, and in Children, Families and Education of £20.9 million. The budgeted position was therefore only able to be achieved through a variety of mitigating actions and non-recurrent transactions, including the reduction in its earmarked reserves by £33.7 million.</p> <p>In 2016/17, the Authority incurred net overspends of £30.7 million in relation to People Services. This includes a £25.7 million overspend within Adult Social Care (18% of budget) and £7.4 million in Children, Families and Education (7% of budget), both as a result of continual increases in demand and cost of social care provision above and beyond that planned for and forecast by officers during the year. In order to mitigate these overspends as well as help address the under-delivery of planned cost savings in 2016/17, the Authority was required to utilise additional one-off measures.</p> <p>In particular there was a reduction in its earmarked reserves of £13.2 million and schools reserves of £13.9 million (which the Authority deems outside of its direct control). The Authority also utilised £21 million of revenue expenditure on transformational projects under the Capital Flexibilities Direction, and wrote back £1.3 million of its general provisions. In total these non-recurrent measures amounted to £60 million in one-off benefits during the year. This was again an important factor in our issuing an adverse VFM arrangements conclusion for 2016/17.</p> <p>2017/18</p> <p>The Authority set what was on the face of it a balanced budget for 2017/18. However, in his February 2018 Section 25 Report, the Authority’s Section 151 Officer provided an updated year-end forecast overspend of £21.1 million. By the end of January 2018, the Authority had only £17.8 million of General Fund reserves available (including earmarked general fund reserves).</p> <p>The Authority’s reliance on one-off measures is not a sustainable strategy in the long-term and does not address the underlying reasons for the structural deficit. The use of receipts under the Capital Flexibilities Direction is also inherently risky as these can only be used to meet qualifying transformational expenditure.</p>
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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Financial Resilience</p> <p>Section 114</p> <p>On Friday 2nd February 2018, the Section 151 Officer (Group Finance Director) issued a report under Section 114 of the Local Government Finance Act 1988, to Members of the Authority. In his letter, the Section 151 Officer noted that, “at the time of writing the County Council faces an overspend of £21.1 million for the financial year 2017/18.”</p> <p>The Section 151 Officer further stated that “as things stand, and as on the current available information, the County Council would be in danger of ending the financial year 2017/18 with a negative General Fund balance unless action is taken. This would represent a breach of the relevant legislation. Although this Section 114 notice is concerned with the immediate position I am also conscious of the gaps identified in the Medium Term Financial Plan.”</p> <p>The purpose of the Section 114 notice was stated as being to “make it clear to Members of the County Council that it faces a financial situation, in the current year and for 2018/19 of a serious nature. This is a situation that cannot simply be left for Officers to improvise solutions. The Members of the Authority must take responsibility.”</p> <p>The Authority’s proposed budget for 2018/19 is premised upon it meeting its revised budgeted net revenue outturn of £416.8 million in 2017/18. However, the Cabinet report dated 16th January 2018 and entitled “Quarterly Revenue Finance (Q3) Report to Cabinet” projected net overspends of £10.3 million in 2017/18 including an overall overspend of £13 million in its demand-led services such as Adult Social Services and Children, Families & Education.</p> <p>2018/19</p> <p>The Authority continues to face projected increases in demand within its key service areas such as Adult Social Services and Children, Families & Education in 2018/19. Savings targets in 2018/19 total £35.4 million, and the Authority is relying upon sufficient capital receipts to enable £30.9 million of qualifying transformational expenditure, which would otherwise be revenue expenditure, to be treated as capital expenditure. This accounting treatment, further to the Capital Flexibilities Direction, is seen as key to mitigating the funding increases required (at a time when Central Government funding has been decreasing year on year) to deal with these increases in demand.</p> <p>For 2018/19, the Authority has a total budget gap (i.e. the difference between its in year funding levels and expenditure) of £66.3 million, comprising of £30.9 million of planned capital receipts under the Capital Flexibility Direction and £35.4 million of planned savings. Failure to achieve the savings or capital receipts planned for 2017/18, or to identify the full projected amount of £35.6 million of qualifying transformational expenditure will result in further savings being required in 2018/19.</p>
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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Reported outturn

The Authority reported to Cabinet in June 2018 that they had achieved their budget exactly (£0.3 million overspend in 2016/17).

At this stage, there were reported material overspends and underspends across the majority of the Authority’s directorates, albeit the cumulative net impact of these was a provisional outturn variance of a balanced budget.

The 2017/18 in-year variances included a £3.9 million overspend in the Chief Executive directorate (160% of net budget) a £5.2 million overspend in the Place directorate, and a £16 million overspend in Northamptonshire Adult Social Services (NASS) which was a 10.7% overspend.

These were mitigated by reported underspends across the other directorates including a £4.1 million underspend in the Children’s directorate (3% of net budget), a £1.3 million underspend in Wellbeing (8.8% of net budget), and the most material item, a £19.98 million reported underspend in the Corporate directorate which accounted for 43.8% of the 2017/18 net budget.

Chief Executive Services

Of the £3.9 million 2017/18 overspend reported in Chief Executive Services, £1.3 million of this related to savings which were not achieved in relation to Next Generation Working, and the benefits due to be realised from technology and increased efficiencies through the move to One Angel Square in the previous year. Likewise, a further £0.5 million of savings attributed to the move to One Angel Square in relation to administrative savings were not realised, nor £0.8 million relating to the centralisation of customer services.

The outturn report presented to Cabinet did not detail why these savings had yet to be achieved, therefore it was unknown whether this was a time delay and efficiencies would still be gained, or the benefits due to be realised from the project were not achievable against those originally predicted as part of the business case.

Finally, within Chief Executive Services, a £1.25 million relating to social impact bonds was not realised, and at that time the Authority reported it was uncertain that any savings would be achieved so the planned efficiencies included in the Medium Term Financial Plan were also removed.

Aside from this, the Authority also reported a further £700k of in year pressures, with a £641k mitigation by management. No detail was provided regarding what these additional mitigations were.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Financial Resilience (cont.)

Children's

Within the Children's Directorate, the Authority reported that in 2017/18 it had utilised £4.5 million of Section 106 contributions, acting on independent legal advice.

In our July 2018 progress report, we stated that audit evidence provided to us had failed to provide assurance that in utilising Section 106 monies for revenue expenditure, the Authority had complied with the terms and conditions of the individual agreements, as well as the legal advice provided to it by Counsel. Following subsequent discussions with Officers, the Authority has since confirmed it no longer deems the use of this Section 106 money to be appropriate to fund general expenditure. It has therefore proposed reversing these contributions from its draft 2017/18 financial statements.

The impact of this is a reversal of £13.5 million of Section 106 monies utilised over the last two years. As a result, and the lack of other options to fund the expenditure previously accounted for via S106 monies, this will result in the Authority reporting a 2017/18 negative general fund balance (i.e. where there was no surplus or other reserves to be drawn down in order to balance the Authority's 2017/18 budget).

The S106 monies will therefore need to remain in the Authority's reserves, and continue to be able to be used by the Authority going forward from 2018/19 onwards. However, this is only appropriate if the specific terms and conditions of each individual agreement is met, and appropriate evidence provided to support this.

Place

Within the Place Directorate, the majority of the 2017/18 overspend was reported as being related to the non-delivery of £6.9 million of savings plans (74% of the total £9.3 million proposals). Included within this were savings of £2 million non-delivered, which related to the commercial maximisation of One Angel Square, £1 million relating to operational savings not realised relating to One Angel Square, and £1.5 million associated with the non-delivery of the transformation and procurement programme. A further £0.6 million of proposed income generation only delivered £0.06 million (10%).

The Authority also noted that further in year pressure arose relating to prior year undelivered based budget savings of £1.8 million. Whilst the timing of budget setting for the 2017/18 financial year is before the outturn is reported, this suggested that management were unaware that such cost savings had not delivered until after the year end, raising concerns (as reported previously) that there was a lack of robust governance and reporting in relation to cost saving plans.

Fortuitously, some of this was mitigated by management through a review of all its services across Environment, Planning and Transport, which realised savings of £3.6m, and £1.5 million of savings within waste management through a reduction in tonnages and further actions to reduce costs through contract management.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Financial Resilience (cont.)

NASS

Within this Directorate, likewise the majority of the £16.1 million overspend relates to savings proposals included in the original 2017/18 budget which had not been delivered (£15.3 million).

Projects included the Learning Disability Joint Commissioning (£4.5 million), domiciliary care services (£1.2 million), and reduction in aged debt of £1 million.

The latter is of note, as the total aged debt within NASS (Northamptonshire Adult Social Services) stood at £6.1 million as of year-end, a figure equivalent to 9.5% of the annual budgeted income for the service. Of this debt, £2m was recorded as being over 3 years old. The Authority needs to ensure that robust debt collection measures are in place to recoup the income it is entitled to, with strict controls from the initial point of access through to income collection. Bad debt created by non-payers creates further pressure on the service which then has to be addressed through service reductions, cost savings and/or efficiencies elsewhere.

Further pressure was reported by partial delivery of brokerage services (£4.9 million undelivered out of £10 million budgeted savings), and £2.1 million overspend in Olympus Care Services due to non-delivery of savings relating to reduced services and increased income. Of note is the fact that the base budget assigned to Olympus Care Services (a company wholly owned and controlled by the Authority) created a £6 million gap between the contracted income payments and the known running costs of the organisation.

The service also reported £17.6 million of addition in-year pressures arising from both higher overall demand and increased levels of acuity within the case mix. This, alongside a lack of supply in the social care market, resulting in increased contract costs.

The Authority should ensure that in setting its base budgets for each financial year, the most accurate and up-to-date information and projects are included in the assumptions made when setting such budgets, particularly for social care. Over the last several years, demand for social care services has continued to rise, not only in terms of general numbers due to demographics, but also in complexity. The Authority has for a number of years reported such in-year pressures which should have been factored into its annual budget setting process, to ensure budgets more accurately reflected demand.

We therefore reiterate the message reported in our ISA260 External Audit Report 2016/17:

“These unplanned for overspends in these areas are as a result of changing demographic pressures and increases in demand over and above that budgeted for in the financial year. The Authority therefore needs to focus more attention on ensuring its financial forecasting is as accurate as possible, utilising comprehensive and up-to-date data sources appropriately so that more accurate estimations can be made in these areas.

The use of reliable and timely financial reporting will also help the delivery of strategic priorities, and ensure that Management is more able to make informed decisions in the knowledge that the data provided to them is accurate and up-to-date so that they can manage risks effectively whilst maintaining a sound system of internal control.”

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Financial Resilience (cont.)

NASS (cont.)

Likewise, a £0.9 million in year pressure was reported against client contributions, however, the Authority also reports that this is a general trend due to more people being looked after at home, with associated lower contributions. It appears that despite being a known trend, this was not factored in sufficiently during the business planning stage of the 2017/18 budget, albeit it is now reported as being built into the Authority's MTFP for future years. In a similar vein, £0.4 million of in-year pressure was reported as brought forward from 2016/17 relating to issues with ongoing savings in LGSS training costs for the service. Another known issue, but one that was not factored into the budget either as a cost or through provisions.

Much of the reported mitigations in the services derived from the use of one-off funding, including £12.5 million from the Better Care Fund and £2.4 million from an unrequired contingency for inflation which was then used to fund the liability for sleep in allowances.

Within the June 2018 finance report presented to Cabinet, details were provided of how the Authority had achieved this balanced budget position, including the mitigations and management actions taken by it during the 2017/18 year. This included a total of £12.3 million drawn down from reserves by 31 March 2018, following an earlier £5.2 million which had already been reported to Cabinet in the Authority's quarterly revenue monitoring reports.

Corporate Services

Capital Flexibilities

Within the June Cabinet report detailing the in-year outturn for Corporate Services, it was reported that in-year pressures arose from a variance against the budgeted income from capital receipts.

This would normally appear to be unusual, in that capital receipts are clearly for the purpose of capital expenditure. However, as we have reported throughout the year, the Authority has budgeted with a significant (and optimistic) assumption that all of its capital receipts would be used to fund transformational projects, and therefore could be utilised under the 'Flexible Use of Capital Receipts' directive to supplement general revenue expenditure.

On this basis, it therefore initially reported that whilst the 2017/18 budget for capital receipts (deemed income) was £17.2 million, this was reforecast in year to be £22.5 million. However, due to the non-sale of Buckton Fields during the 2017/18 year, it was unable to realise a predicted capital receipt of £12 million. The result of this, based on the Authority's approach to budgeting revenue based on 'Capital Flexibilities' directive was therefore a net pressure of £7.6 million against the original budget, but £12.9 million against the reforecast.

The results of our audit testing in relation to transformational programmes funded by 'Flexible Use of Capital Receipts' is reported elsewhere in this document, including the overall impact on the Authority's year-end financial position. However, at a high level, in our July 2018 progress report, we stated that audit evidence provided to us had failed to provide assurance that all of the programmes funded by the Flexible Use of Capital Receipts direction met the requirements as laid down in the guidance issued from the Department for Communities and Local Government.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Financial Resilience (cont.)

Corporate Services (cont.)

As previously communicated in our audit plan, interim report, and progress reports, our review was not just limited to the use of capital flexibilities within 2017/18, but with new information now available, we were also reviewing those projects funded under this mechanism in 2016/17. For example, evidence now exists which shows that projects previously presented to audit as time limited one-off projects are in actuality on-going costs which would be required to be incurred by the Authority. They therefore, in our view, do not meet the necessary criteria to be funded via capital receipts.

Following subsequent discussions with Officers, the Authority has confirmed it no longer considered that £16.959m of expenditure to meet the definition of transformational spend as required by the guidance in order to be funded via capital receipts.

As a result of this, this expenditure will need to be funded via general fund monies. As of 31 March 2018, the Authority had limited funds available to meet any excess expenditure in the year (i.e. there was no surplus, nor other reserves to be drawn down in order to balance its 2017/18 budget). The consequence of this financial position, as previously warned by the previous Section 151 Officer (S151) in his February 2018 report to Council, is that the Authority will find itself reporting a negative 2017/18 general fund position as of year-end.

Section 38

Likewise, the Authority also reported to Cabinet in June 2018 that it has released £2.9 million in commuted sums (Section 38 adoptions) for inclusion in the Corporate Services outturn, therefore impacting the originally reported 2017/18 year-end position. In our July 2018 progress report, we stated that audit evidence provided to us had failed to provide assurance that in utilising Section 38 (S38) monies for revenue expenditure, the Authority has complied with the terms and conditions of the individual agreements. The Authority did not seek legal advice on the use of Section 38 monies before pursuing this course of action.

Following subsequent discussions with Officers, the Authority confirmed it no longer deems the use of this S38 money to be appropriate to fund general expenditure. It has therefore proposed reversing these contributions from the draft financial statements. The total reversal of S38 monies is £2.8m utilised in 2017/18. As a result of other mechanisms to fund the expenditure previously funded via S38 grants, this will further contribute to the Authority's negative general fund balance as of 31 March 2018.

MRP

The Authority also reported that following the review of its Minimum Revenue Policy (MRP), and changes to this approved by Council in March 2018, the revised policy had been implemented which resulted in a £8.55 million benefit within the 2017/18 financial position.

The MRP is the minimum amount that must be set aside by the Authority each year to pay for capital expenditure initially financed through borrowing. Local authorities are allowed a degree of flexibility in calculating its MRP across four different recommended methods. The Authority's choice in methodology significantly affects the amounts it needs to set aside each year. The Authority needs to ensure that the amounts set aside each year should be "prudent" with regard to its Capital Financing Requirement (CFR).

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Financial Resilience (cont.)

Corporate Services (cont.)

As part of our 2017/18 audit work during the year, and reported elsewhere in the document, we have reviewed this updated approach to MRP and were content with the changes made and the resulting impact on the financial statements. However, it should be noted that such an impact should be seen as one-off in nature, and has clearly helped the Authority achieve its originally reported balanced budget.

Reserves

The Authority also reported the use of earmarked reserves to support its general revenue position for 2017/18. Whilst this is not unusual in local government, especially during difficult financial circumstances when planned cost savings are not realised, the magnitude of reserves used by the Authority are unparalleled. Following a further review by the Authority of its balance sheet during the year, it decided to utilise an additional £5.2 million of its earmarked reserves.

This includes the full use of reserves such as the Street Lighting PFI Reserve (£1.5 million), Grant Carry Forwards (£442k), Bridge and Road Adoption Reserve (£1.033 million), Budget Delivery Reserve (£2.665 million), whilst also releasing significant sums from the Insurance Reserve (£1.575 million), and the Business Rates Reserve (£877k).

Of the remaining £8.4 million of earmarked reserves, the most significant are the Public Health Reserve (£2.797 million), the Business Rates Reserve (£1.781 million), the required redundancy reserve (£975k), and the Insurance Reserve (£982k). The majority of the earmarked reserves (£4.4m) are also ring-fenced for specific purposes, meaning they are unable to be used to support the general revenue position.

As a result of this, the Authority would have still been left with an unfunded overspend of £12 million despite the reported use of one-off items above, and the other mitigations put in place during the year following the non-delivery of cost saving plans as well as additional expenditure pressures on services. The Authority therefore took the unprecedented step of utilising all of its general fund balance of £12.021 million in order to initially report to Cabinet in June 2018, a balanced outturn position for the 2017/18 financial year.

Under the Local Government Finance Act 1992, the Authority is required to have due regard to the level of its reserves required for meeting future expenditure commitments when setting its budget requirement. Section 25 of the Local Government Act 2003 requires the Authority's Section 151 Officer to report on the adequacy of the Council's reserves. It is therefore a matter of judgement for the Section 151 Officer to ensure that the Council has an adequate level of financial reserves.

The impact of this originally reported position therefore was the immediate need for the Authority to replenish its reserves to an appropriate level in the following 2018/19 financial year, including both the General Fund Reserve and other Earmarked Reserves which were utilised. In June 2018, this was reported as a minimum of £13 million, providing additional pressure on the 2018/19 budget position.

The Authority's reliance on one-off measures is not a sustainable strategy in the long-term and does not address the underlying reasons for the structural deficit. The use of receipts under the Capital Flexibilities Direction is also inherently risky as these can only be used to meet qualifying transformational expenditure.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Financial Resilience (cont.)

As part of our 2017/18 audit work during the year, and reported elsewhere in the document, we have reviewed this updated approach to MRP and were content with the changes made and the resulting impact on the financial statements. However, it should be noted that such an impact should be seen as 'one-off' in nature due to the fact that the main effect of these changes is to impact the MRP figures for the 2017/18, 2018/19, and 2019/20 financial statements, rather than providing on-going savings each and every year. As such, it has clearly helped the Authority achieve its originally reported balanced budget (prior to the audit adjustments).

2017/18 AUDIT ADJUSTMENTS

The above is further exacerbated by the adjustments found during the course of the audit which reverse a number of accounting treatments initially transacted by the Authority in order to achieve its originally reported financial outturn of breakeven. These adjustments are reported throughout this report, and summarised in Appendix Three.

As a result of these audit adjustments, the finalised position of the Authority as of 31 March 2018 is a decrease in the General Fund balance of £35.3 million, which given this was reported a Nil in the draft accounts, results in a year end negative General Fund balance of £35.3 million. This is the first recorded negative General Fund balance in Local Government.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Capital Strategy</p> <p>The Authority’s budget for 2017/18 was based upon capital receipts of £35.6 million being used to fund what would otherwise be revenue expenditure, pursuant to the Capital Flexibilities Direction.</p> <p>The Authority’s proposed budget for 2018/19 is predicated on the use of planned capital receipts of £30.9 million pursuant to the Capital Flexibilities Direction, dependent on achieving the lawful sale and leaseback of One Angel Square in the current financial year and therefore having carried forward capital receipts to fund transformation in 2018/19, as well as the sale of further, currently unidentified, assets worth £17.6 million which may be disposed of during 2017/18 and/or 2018/19.</p> <p>Within this context, the Authority recently published its Strategy for the County Property Estate, detailing the four key aims of the approach:</p> <ul style="list-style-type: none"> — Asset rationalisation of the corporate office estate; — Realisation of Revenue savings; — Realisation of Capital Receipts; and — Bringing forward the Authority’s Strategic Landholdings to provide a pipeline of opportunities for the longer term capital and revenue requirements.
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criteria:</p> <ul style="list-style-type: none"> — Informed decision-making; — Sustainable resource deployment; and — Working with partners and third parties
Our assessment and work undertaken:	<p>Governance</p> <p>Governance of the Capital Programme comprises of the Capital Projects Board, chaired by the Executive Director Commercial and Place and aimed at reviewing scheme progress through Project Management reporting and identifying issues and risks which require support to resolve or escalation to Capital Approvals Board.</p> <p>The Capital Approvals Board is chaired by the Executive Director of Finance and includes Cabinet members aimed at reviewing business cases in respect of new schemes or additional funding bids. New schemes or extensions to schemes are then recommended to full Cabinet for approval. The Board also considers its own ad hoc programme of work and issues raised by Capital Projects Board.</p> <p>Section 114</p> <p>Since the s114 notice was issued by the S151 Officer in February 2018, a Capital Review Panel (CRP) has been put in place to complement the Chief Executive Approval Panel (CEAP) which exists to review revenue expenditure.</p> <p>The CRP interacts with the Capital Approvals Board to provide a mechanism for urgent capital schemes to be approved and reported through the Monthly Update report to Cabinet.</p>

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Capital Strategy (cont.)

Capital Outturn

The Authority's reported outturn spend on its Capital Programme during 2017/18 was £143 million. Of this, £68.1 million was spent on Environment, Planning and Transport, whilst £60.99 million was related to capital programmes within the Children's Services.

The outturn report details spend against budget on a high level service basis, with budget being defined as the five year capital programme. However, within the detail of the reports more information is provided on cost pressures against individual schemes.

Northampton International Academy

During the year, an additional £10 million of cost pressures were noted in relation to the building of the Northampton International Academy scheme, the original budget for which was funded through the ESFA Free Schools programme for £34.7 million.

The Authority had originally tendered the construction contract in January 2016 and received bids that exceeded the pre-tender estimate produced by NCC's appointed Quantity Surveyor, MACE, and exceeded EFA's funding limit. In addressing this, NCC undertook a lengthy value-engineering exercise to reduce the construction cost and sought additional funding from the EFA. The exercise was concluded and EFA approved additional funding which created a balanced budget position.

However, the additional cost arising is a significant variance to the original balanced budget, which without any further ESFA funding would need to be picked up by the Authority.

The Authority noted that approximately £1.2 million of S106 could be utilised, alongside £9 million set aside within the Basic Needs Grant. By the end of the financial year, the total amount of S106 monies utilised was £1.8 million. Given issues noted elsewhere within this report regarding the misuse of S106 monies, the Authority needs to assure itself that the specific funding utilised is appropriate and in line with the original terms and conditions of the payments. Regardless, the use of such funding streams will reduce money available for other school capital projects.

The Authority has reported that the delivery phase of the construction contract has had a number of significant challenges and cost pressures including unknown features associated with the existing building, contractor's costs and associated programme delays, temporary accommodation to support the September 2017 intake following delays, expected savings sums not being delivered, and design team and project management fees.

In particular, due to limited survey works undertaken prior to planning permission, additional costs were incurred relating to required repairs to concrete floors, additional demolition and structural work, and removal of contaminated soil.

Since then, a further £1.5 million of additional costs have been identified, meaning costs have increased 32% against the original budget.

The Authority notes that EFA grants exclude any allocation of a contingency which, on a project of this complexity, would typically have an allocation equivalent to 10% of the contract sum. Providing project funding without a contingency is the normal procedure for EFA projects. However, given this was the case, the Authority did not make any contingency itself for the project.

Therefore, even if the Authority can find the funding for the additional costs, the fact the Authority finds itself in this situation clearly demonstrates that there has been a lack of robust

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Capital Strategy (cont.)

governance over the lifetime of the project, including the original planning and business case stage, and on-going project management and reporting.

One Angel Square

The Sale and Leaseback of One Angel Square (OAS) was approved by NCC's Cabinet on 13 February 2018. At this meeting, Councillors were informed that the transaction was necessary to balance the Authority's budget for 2017/18 through the capital receipts which would be generated upon disposal.

Ultimately, the transaction did not go through until after 31 March 2018 and will therefore be reflected in the 2018/19 financial statements. One Angel Square therefore remains on the Authority's balance sheet as of 31 March 2018.

Officers informed Members that such information requested (regarding related valuations, cost projections, as well as other pertinent details within an overall business case/ financial model), had been provided to the special scrutiny meeting formed to review the proposed transaction.

We were not provided with this information and cannot gain assurance that all appropriate consideration has been made of all financial aspects of the deal, both in the short, medium and long-term. We also requested from Officers information relating to considerations made following the Caller Report, and how such a transaction maybe impacted by the abolition of the County Council as part of the establishment of a Unitary system of local government within Northamptonshire. This was not considered before the sale and leaseback went ahead.

Likewise, following the Cabinet decision in February 2018, to continue with the transaction, it was stated that the valuation had been undertaken into OAS as part of the Authority's due diligence work leading to the sale and leaseback. We requested as part of our audit evidence, and in July 2018 it was confirmed by the Authority to KPMG that no such valuation had been commissioned by the Authority, and the last valuation of One Angel Square had been obtained on 22 May 2017, the date at which OAS first became operational. Officers subsequently informed us that they had believed the PWC feasibility assessment report to be a valuation report, despite the fact that this document clearly stated the Authority should obtain its own independent valuation before proceeding with the transaction.

This is critical, as the valuation is the key figure from which numerous other financial statements calculations are derived, most especially the applicable capital receipts which may be used to fund transformation expenditure going forward.

We have raised related recommendations regarding the need for the Authority to ensure that when transactions such as the sale and leaseback of One Angel Square are proposed, that Officers should be required to obtain Cabinet approval, and also ensure that all necessary information provided to Members for decision-making purposes is complete, factual and correct.

Officers should ensure that Members are being presented with all the relevant information in respect of reports commissioned, due diligence undertaken, and any other pertinent calculations feeding into the financial business case, to ensure a robust and well informed decision making process.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Capital Strategy (cont.)

Senior Officers should ensure that they understand the difference between a feasibility assessment report, and an independent valuation report, most especially when providing information to Members for decision making purposes. If uncertain, further guidance should be sought from relevant experts, to ensure that any statements made either in business papers or verbally at the meeting, are factually correct.

Where critical information is reported as being provided to a Scrutiny Group, the reporting of what this information actually was, where it came from, and what it said, should be clear and concise so that all Cabinet members can make an informed decision, and are not forming views based on statements which could be misleading. Where transactions are of such a significant nature, the Authority should consider providing all of the due diligence information to Cabinet for consideration in camera, taking into account any commercial sensitivities which would preclude this being recorded in public documents.

We have reviewed the circumstances in 2017/18 surrounding the decision to proceed with the sale and leaseback of One Angel Square, and have reported on the issues above, as well as raised related recommendations in Appendix One.

However, the sale and leaseback of One Angel Square was not completed until April 2018, and therefore the transaction itself, including the associated accounting treatment based on the final agreed commercial agreements, as well as further value for money considerations fall within the scope of the 2018/19 financial statements, and associated audit.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Cost Savings Plans</p> <p>The Authority set itself a savings target of £58 million in 2017/18. This was broken down as follows:</p> <ul style="list-style-type: none"> — Efficiency: £18.5 million — Income Generation: £1.4 million — Service Transformation: £37.1 million — Service Cuts: £840,000 <p>Within the final budget presented to full Authority in February 2017, individual directorates each presented an executive business plan which provided some further description of these plans on a line by line basis.</p> <p>As per the Q3 Quarterly Finance Report to Cabinet, £30.9 million of savings were forecast to be delivered, and management interventions had been identified to mitigate budget delivery pressures and emerging in-year pressures. However, we note that the information reported is only at a high level and does not include details regarding which specific plans have failed to deliver in year, whether partially or fully, nor the forecast total savings generated by each plan by the end of the financial year or the current risks associated with these. We have requested this information from the Authority.</p>
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criteria:</p> <ul style="list-style-type: none"> — Informed decision-making; — Sustainable resource deployment; and — Working with partners and third parties
Our assessment and work undertaken:	<p>The Authority set a net revenue budget of £417.4 million for 2017/18, including a requirement to make £58 million of savings.</p> <p>Our work reviewing cost saving plans was linked to our review of the Flexible Use of Capital Receipts, due to the intrinsic link between the two areas, albeit transformational plans should produce on-going benefit, whereas cost saving plans can also be one-off in nature.</p> <p>As we have reported elsewhere in this document, we have previously noted the poor evidence provided to us in order to support the funding of these transformational projects through Capital Flexibilities. During the course of our audit, there was generally very little evidence supplied to us for any of the cost saving programmes detailed.</p> <p>The Authority did not have a specific project management framework in place to monitor the overall transformational programme, but rather relied on individual service areas or project owners to manage these on a case by case basis. Within this, there was no set template for on-going reporting and monitoring to ensure consistency of approach.</p> <p>Without this on-going overall monitoring by senior management of the transformational programme, including progress against specific goals (such as generating on-going cost savings and service transformation) there is a risk that money is invested in projects which fail to deliver their outcomes, utilising scarce financial resources which could have been deployed more effectively elsewhere.</p>

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Cost Savings Plans (cont.)

As part of our audit request, we asked the Authority to provide details on the specific cost savings each project has achieved. The Authority utilised £21.0 million of capital receipts in 2016/17 to fund transformational spending. These projects were designed to achieve £16.3 million of savings in-year, however, only £8.1 million (50%) was delivered with many projects not delivering any savings at all.

In total £7 million (33% of total projects) was spent on transformational projects that have not delivered any savings in 2016/17 or 2017/18.

Examples include:

- Adult Social Care Staff Costs: £702,000 spent, no savings delivered in 2016/17 or 2017/18;
- Place Highways and Transport Transformation Projects: £636,000 spent, no savings delivered in 2016/17 or 2017/18;
- Managing Agent: £495,000 spent, no savings delivered in 2016/17 or 2017/18;
- Race to the Top Programme: £257,000 spent, no savings delivered in 2016/17 or 2017/18; and
- Total Transport: £253,000 spent, no savings delivered in 2016/17 or 2017/18.

In discussions with Officers regarding various schemes, it became clear that there was a lack of robust governance over the entire process. For some projects, business cases had not been developed, there were no project initiation documents, and no governance or monitoring structure in place to ensure the transformational programmes were delivering the benefits they had been designed to do.

Likewise, we requested examples from Officers of Benefits Realisation documents to show how the Authority has assessed completed projects, whether successful or not. At the time of our work, no evidence could be provided to us to show the Authority had undertaken work to understand why certain projects had failed to deliver projected savings. As a result, the Authority is at risk of not learning from its mistakes, and therefore of not strengthening its processes going forward, or indeed putting processes in place to begin with. Example areas for strengthening include business case development, due diligence, governance, monitoring etc. We have raised related recommendations in Appendix One.

Following subsequent discussions with Officers, the Authority has confirmed it no longer deems £16.959m of expenditure to meet the definition of transformational spend as required by the guidance in order to be funded via capital receipts.

However, whilst some transformation projects were ultimately deemed acceptable from an audit perspective, this took an incredibly long time and sustained effort to obtain sufficient evidence to support these as it was not readily available, and the Authority had no central process for approving, monitoring or reporting on these.

We also note that during 2017/18, the Authority's approach to financial reporting to Cabinet does not currently provide sufficiently detailed information regarding the overall cost saving position versus plan, nor the granularity to see what individual savings plans over or under-achieved in year, and any mitigations (including new in year savings) to achieve these.

In our Interim Report 2017/18 we reported that we reviewed the Authority's financial reports submitted to Cabinet in 2017/18. We noted that the reports were unclear and lacked details, including in the accompanying appendices. The reports did not provide Members with a clear

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Cost Savings Plans (cont.)

view of the variances and overspends within each Directorate, and the narrative was often vague, opaque, and written in management jargon; the style of which does not promote clarity of reporting. This style of reporting is consistent across all directorates.

For example, the Authority terms any slippages of its savings plans as “budget delivery pressure”, which is vague and does not truly reflect the issue.

The Authority needs to ensure that there is a robust governance process in place for each costing saving / transformational project, at department level along with clear oversight centrally from the Chief Executive, as well as input from the Director of Transformation and S151 Officer. Considerations should include project plans, risk registers, budgets, key milestones and deliverables to measure outcomes and grade success. There should be regular monitoring and reporting internally of scheme progress, including to ensure appropriate decisions are being made regarding continuing a scheme, providing further funding, or stopping a scheme when it is not expected to deliver the benefits promised.

From a governance perspective, the Audit Committee should also receive regular reports into the progress of cost saving / transformational plans in order to gain assurance that appropriate controls and processes are in place, and that the Authority is making informed decisions based on accurate information and value for money considerations.

We have raised related recommendations in Appendix One.

Our findings indicate that there is an insufficiently systematic and robust process in place to plan, deliver, and monitor cost saving programmes within the Authority.

As a result of this work we have undertaken, we are unable to state that in 2017/18 Northamptonshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we expect to issue an adverse 2017/18 value for money opinion.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Transformational Plans and Capital Flexibilities</p> <p>The Authority recently published (Cabinet Report, February 2018) its list of currently identified transformational plans for 2017/18, totalling £18.5 million. The Authority is currently looking to identify a further £17.1 million of qualifying expenditure in 2017/18 in order to fully utilise the anticipated capital receipts of £35.6 million under the Capital Flexibilities Direction issued by the Secretary of State for Housing, Communities and Local Government, originally in March 2015 and then reissued and extended on 6 February 2018.</p> <p>The Authority’s proposed budget for 2018/19 is also predicated on the use of planned capital receipts of £30.9 million pursuant to the Capital Flexibilities Direction. The identified savings over the subsequent four years currently stand at £65.3 million.</p> <p>Given the significant expenditure linked to these projects, it is essential that transformational projects are well planned and managed to ensure that they deliver the desired outcomes for the Authority. Where they are financed through the use of Capital Flexibilities, these projects must be forecast to generate ongoing savings.</p> <p>From 2017/18, the Authority’s Capital Flexibilities Strategy should contain details on projects approved in previous years (i.e. 2016/17), including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis. Whilst the Authority has published its list of expenditure incurred in 2016/17, it has not yet published this expected analysis on whether the outcomes have been, or are being, achieved.</p>
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criteria:</p> <ul style="list-style-type: none"> — Informed decision-making; and — Sustainable resource deployment.
Our assessment and work undertaken:	<p>As we noted in our reporting during March 2018, the evidence provided for each transformational project varied depending on the nature of the scheme, however overall there was generally very little evidence and supporting documentation provided to us to support the Authority’s overall use of Capital Flexibilities for transformational spending.</p> <p>The Authority did not have a specific project management framework in place to monitor its overall transformational programme, but rather relied on individual service areas or project owners to manage these on a case by case basis. Within this, there was no set template for on-going reporting and monitoring of the programme to ensure consistency of approach.</p> <p>Without this on-going overall monitoring by senior management of the transformational programme, including progress against specific goals and milestones (such as generating on-going cost savings and service transformation) there is a risk that money is invested in projects which fail to deliver their outcomes, utilising scarce financial resources which could have been deployed more effectively elsewhere.</p> <p>As part of our audit request, the Authority was asked to provide details on the specific cost savings each project has achieved. This appears to be the first time that such information was centrally gathered and reported. The Authority utilised £21.0 million of capital receipts in 2016/17 to fund transformational spending. These projects were designed to achieve £16.3 million of savings in year, however, only £8.1 million (50%) was delivered with many projects not delivering any savings at all.</p>

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Transformational Plans and Capital Flexibilities (cont.)

In total £7 million (33% of total projects) was spent on transformational projects that have not delivered any savings in 2016/17 or 2017/18.

Examples include:

- Adult Staff Costs: £702,000 spent, no savings delivered in 2016/17 or 2017/18;
- Place Highways and Transport Transformation Projects: £636,000 spent, no savings delivered in 2016/17 or 2017/18;
- Managing Agent: £495,000 spent, no savings delivered in 2016/17 or 2017/18;
- Race to the Top Programme: £257,000 spent, no savings delivered in 2016/17 or 2017/18; and
- Total Transport: £253,000 spent, no savings delivered in 2016/17 or 2017/18.

In discussions with Officers regarding various schemes, it became clear that there was a lack of robust governance over the entire process. For some projects, business cases had not been developed, there were no project initiation documents, and no governance or monitoring structure in place to ensure the transformational programmes were delivering the benefits they had been designed to do.

Likewise, we requested examples from Officers of Benefits Realisation documents to show how the Authority has assessed completed projects, whether successful or not. At the time of our work, no such evidence could be provided to us to show the Authority had undertaken work to understand why certain projects had failed to deliver projected savings. As a result, there is a risk that the Authority does not learn from its mistakes, and does not strengthen its processes appropriately going forward. Example areas for strengthening include business case development, due diligence, governance, monitoring etc. We have raised related recommendations in Appendix One.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	Risk Management
	<p>Risk Management is an essential function in supporting the Authority’s day-to-day as well as strategic, management. A robust risk management framework can assist the Authority in ensuring it has proper arrangements in place to achieve value for money. That is, if embedded across the Authority it can assist in ensuring it undertakes informed decision making, deploys sustainable resources, and works effectively with partners and third parties.</p> <p>Cabinet has an executive role in the management of risk across the Authority, and the Audit Committee is the lead body responsible for monitoring adherence to the Risk Management Policy. Within this context, the Authority is currently reviewing and revising its approach to risk management.</p> <p>The Authority should have a Corporate Risk Register in place, which as a living document should identify the Authority’s objectives, risks to achieving these and controls in place to mitigate such risks. It should also identify the sources of assurance in relation to each risk.</p> <p>Supporting this framework, the Authority have underlying risk management arrangements which are embedded across the organisation. Risk Management is the culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. Effective risk management arrangements should be embedded within the routine processes and culture of an organisation, rather than seen as an additional administrative layer.</p>
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criterion:</p> <ul style="list-style-type: none"> — Informed decision-making
Our assessment and work undertaken:	<p>Following a verbal update in November 2017, Internal Audit presented an update on the on-going work to refresh the Authority’s approach to risk management at the February 2018 Audit Committee. This included a revised Risk Management Policy and Risk Management SORP, as well as an update in the draft Corporate Risk Register.</p> <p>A further verbal update was provided at the March 2018 Audit Committee which confirmed that work was still on-going.</p> <p>In May 2018, the Authority confirmed that the Strategic Risk Register has not been reviewed or revised by the Authority’s Management Team since the last Audit Committee.</p> <p>As a result, all of the actions within the Risk Register remain outstanding and have not had a revised target date added by risk owners. Similarly, there has been no risk owner reassessment of the risk and triggers, residual risks nor adequacy of the existing controls and actions.</p> <p>For example, the risk over financial sustainability had been rated as 20, a high risk but not the highest score possible (25). There were eight action plans associated with this, detailed for example as “Obtain assurance that procurement processes are in place and adhered to”, “Realistic and sustainable plan & MFTP”, and “Business planning integrated with budget process within finance directorate”. Despite the significance of these, none of these actions had further detail behind them detailing what actions should be taken, by whom, and by when.</p>

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Risk Management (cont.)

Across the eight high risks on the Corporate Risk Register, the individual action plans associated with all of them were also Red-Amber-Green rated as Red.

The General Counsel, and Commercial and Resources Directorates did not have risk registers, although Children, Families and Education did.

At the time of our External Audit Interim Report 2017/18 we noted that there remained a significant risk to the organisation if a robust framework is not embedded at all levels as soon as possible. Work in this area should be made an immediate priority by Officers.

The Authority currently faces a significant number of risks to its day to day operation, whether financial or operational. Many of these have already been highlighted in various external reports, including our previous audit reports, the LGA Peer Review, and the Caller Report.

As noted elsewhere, strong action plans should be put in place to manage or mitigate these risks. Without a finalised Corporate Risk Register and associated action plans, then there is no assurance that the Authority is dealing with these issues appropriately or in a timely manner.

As new risks emerge, the Authority needs to ensure it is identifying these and assigning appropriate resources as required to mitigate these. New risks include those associated with the abolition of the County Council and establishment of a new unitary system for Northamptonshire, and the findings of any future CQC Whole System Review into integrated healthcare across the County.

The Authority should regularly review the updated Risk Management Policy and SORP, as well as associated policies to ensure they are detailed, integrated and consistent in approach providing staff with clear instructions, direction and guidance on how the Authority expects staff to support a culture of effective risk management.

Roles, responsibilities and reporting lines in relation to risk management as well as the overall governance structure should be clearly defined and staff should be aware of the Authority's approach to identification, assessment, management, monitoring and escalation of risk including information on risk appetite and horizon scanning.

Risk management should be supported by a comprehensive suite of policies and procedures relating to areas such as health and safety, complaints and concerns, information governance, business continuity etc.

Once risk management is more embedded at the corporate level, there should be a clear focus by the Authority on ensuring that staff throughout the organisation are made aware of the need for effective risk management, supported by training, communications and formal governance structures within the Authority.

The Authority should look to gain assurance over risks on the Corporate Risk Register through regular deep dives to ascertain how robust the management of individual risks is, this could form part of the Audit Committee's work programme during the year. The work programme for other committees should be informed by the Corporate Risk Register.

Therefore for the financial year 2017/18 we are unable to gain assurance that risk registers are robustly collated, monitored and reported, nor that local risk registers inform one another and comply with the overall Risk Management Policy.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Risk Management (cont.)

As of 2017/18, the Corporate Risk Register was not supported by sufficient and appropriate evidence, and it could therefore not be used to enable Cabinet to make appropriate decisions. The Corporate Risk Register was not being used as a 'live' document and was not updated on a regular basis. During the financial year, we did not see evidence that risk registers were informing the work plan or agenda of Committees, including Cabinet and Council.

As a result of this work we have undertaken, we are unable to state that in 2017/18 Northamptonshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we expect to issue an adverse 2017/18 value for money opinion.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Off-Payroll Working through an Intermediary (IR35)</p> <p>Following the Finance Bill 2017, the government introduced revised legislation relating to off-payroll working in the public sector. The measure applies to payments made on or after 6 April 2017, but also applies to contracts entered into before that date.</p> <p>The off-payroll working rules are in place to make sure that, where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and National Insurance contributions (NICs) as an employee.</p> <ul style="list-style-type: none"> — Public Sector authorities will be responsible for identifying and reviewing the employment status of all workers engaged through personal service intermediaries (referred to throughout as Personal Service Companies (“PSC”)) including those provided via an agency. — Where, in the absence of the PSC, the worker is deemed to be an employee of the Public Sector Council, it, (or the agency) is required to calculate the deemed payment being made to the worker. — Account for PAYE and National Insurance (employee and employer) to HMRC on the deemed payment. — Financial sanctions will be applied where the legislation is not applied or applied incorrectly e.g. where employment status is incorrectly determined HMRC will collect any underpaid tax and NIC from the Public Sector Council. <p>HMRC is committed to enforcing the new rules and has set up an employment status and intermediaries team to review the arrangements.</p>
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criterion:</p> <ul style="list-style-type: none"> — Working with partners and third parties.
Our assessment and work undertaken:	<p>As we have previously reported, during the course of the year, we undertook work in relation to the re-engagement of a previous employee of the Authority via a contract with their own company, a few days after they had originally left the organisation.</p> <p>We undertook work to ascertain the procurement processes and approval procedures undertaken in relation to this arrangement, as well as the various considerations undertaken by the Authority in respect of published guidance and legislation.</p> <p>Our findings were based on information received from the Authority and discussions with Officers:</p> <ul style="list-style-type: none"> — There was no formal documentation regarding the business case for this engagement, nor evidence of approval in line with Standing Financial Instructions / Standing Orders. — We were informed that the engagement opportunity was not advertised due to deemed specific circumstances and the urgency of the requirement. We have been unable to obtain any evidence regarding the consideration or authorisation of this engagement as such, and therefore approval that this could by-pass normal procurement rules (e.g. through a single tender waiver etc.).

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Off-Payroll Working through an Intermediary (IR35) (cont.)

We were informed that this was due to an administrative oversight.

- The contract was not included on the NCC contracts register. We have been informed this was due to an internal administrative oversight.
- We have been unable to obtain any evidence supporting the authorisation of the extension of this contract in line with the Authority's financial policies and processes.
- The Authority did not undertake any review prior to initiating the engagement regarding how such an arrangement would comply with its own internal guidelines and policies, nor specifically any DCLG, Treasury or HMRC guidance. The Authority believes that the arrangement did not meet the requirements of being an employment relationship under IR35 considerations.
- No tax or legal advice was obtained prior to entering into the engagement.
- We have requested in January 2018 the Authority's retrospective legal opinion on this engagement, and whether it is in line with applicable guidance but at the date of the report this has yet to be received. At this time, the Authority is still completing its own investigation into the matter but have not provided us with any further information or update.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

<p>Risk:</p> <p>VFM Sub-criterion:</p> <p>Our assessment and work undertaken:</p>	<p>Chief Executive Payment</p> <p>The Authority’s previous permanent Chief Executive departed the organisation in October 2017. The Chief Executive also acts in a statutory role as the Head of Paid Service. There is a risk that the terms and conditions of the departure, including any exit package, did not provide value for money to the Authority.</p> <p>This risk is related to the following Value For Money sub-criterion:</p> <ul style="list-style-type: none"> — Working with partners and third parties <p>The Authority has a procedure for the negotiation of severance agreements for Chief Officers and this forms part of its Constitution, and is also included in its Pay Policy.</p> <p>The exit of the previous permanent Chief Executive was a decision taken by the former Leader in consultation with Cabinet, following advice from Officers.</p> <p>An agreement was reached for the departure of the previous permanent Chief Executive, in accordance with this advice, including the nature and value of the settlement.</p> <p>Subsequently the 2018/19 pay policy was updated to include a statement under section 12 to formalise the arrangements for severance payments to Chief Officers.</p> <p>We reviewed the Authority’s process for agreeing a settlement agreement package with the previous permanent Chief Executive, and confirmed that appropriate calculations had been made to derive certain figures such as pay in lieu of notice.</p> <p>We noted that an element of pay, as for other ‘exit packages’ include holiday entitlement not taken. We were unable to gain assurance over this calculation as there is no central tracking or authorisation of annual leave taken during the year against individual’s entitlements, and therefore no auditable trail of evidence to confirm what the holiday balance for any employee is at any point in time. We have raised related recommendations in Appendix One.</p> <p>We were however, able to confirm that payments were made in line with the settlement agreement, with the exception of a validated holiday entitlement.</p>
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Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Financial Peer Review and Action Plans</p> <p>Within the context of the Financial Peer Review undertaken by the Local Government Association in September 2017, a number of concerns were raised in the report, some echoing those previously stated in External Audit Reports to Audit Committee.</p> <p>The review noted that “Like much of local government, Northamptonshire County Council has seen major reductions in its funding over the past seven years and there are further significant grant reductions planned for local authorities to the end of the decade. This, together with service pressures, puts the Council at a cross roads in terms of its viability.”</p> <p>The review issued seven key recommendations:</p> <ul style="list-style-type: none"> — Prepare a new 4 year service and resource plan backed up with a sensible delivery plan which shows a balanced budget over the period. — Focus all available resources on realising savings and return on investment. — The Council should not be distracted by initiatives which do not provide sufficient rewards for effort. — A financial gap analysis of the 4 year plan should form the basis of the Council’s discussions with government to identify short term solutions until it can achieve financial balance in the medium and longer term. — The Cabinet and the new management team need to consistently demonstrate a collective commitment to addressing the Council’s serious financial position. — The new management team needs to ensure that all staff comply with proper financial and other processes. — The Internal Audit function needs to be more effective with the Council placing more value on them and using them as an effective tool for improvement and assurance. <p>It is essential that the Authority acts upon these recommendations in a robust and timely manner to ensure changes have a positive impact. Officers and Members should ensure that a robust action plan is in place to monitor implementation of these key messages. This will ensure that short and medium-term changes are enacted as quickly as possible in order to derive immediate and future benefit in terms of the Authority’s financial recovery.</p>
VFM Sub-criterion:	<p>This risk is related to the following Value For Money sub-criteria:</p> <ul style="list-style-type: none"> — Informed decision-making; — Sustainable resource deployment; and — Working with partners and third parties
Our assessment and work undertaken:	<p>Following the appointment of Commissioners on 10 May 2018, we met with Tony McArdle and Brian Roberts to discuss the steps the Authority needs to undertake in order to address the concerns raised within the Financial Peer Review undertaken by the Local Government Association in September 2017. This links in with our wider work on the Authority’s financial stability, including reviewing the short and medium-term financial plans, within the context of a proposed Unitary solution within Northamptonshire which may commence as soon as April 2021. We have raised related recommendations in Appendix One.</p>

Appendices



Appendix 1:

Key issues and recommendations 2017/18

Our audit work on the Authority's 2017/18 financial statements has identified a number of issues to date. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

1	<p>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.</p>	2	<p>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.</p>	3	<p>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.</p>
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The following is a summary of the issues and recommendations raised in our 2017/18 Interim Report, and in this ISA260 External Audit Report:

Priority	Interim Report 2017/18	ISA260 External Audit Report	Total
High	2	5	7
Medium	2	15	17
Low	-	5	5
Total	4	25	29

Key issues and recommendations (cont.)

Risk Issue & Recommendation

Management Response as at July 2019

Transformational Schemes funded by Capital Flexibilities

Detailed findings on Transformational Schemes funded by Capital Flexibilities are on page 22. As a result of our detailed work following recommendations are raised:

1. The Authority should ensure that where new guidance is issued it dedicates time and resource to ensure it complies fully with this, and where gaps are identified internally or via external audit, that actions are taken to rectify this as soon as possible.
2. The Section 151 Officer (S151) should review the current situation and formally confirm that the Authority is in full compliance with the guidance, and Officers should be held to account for not undertaking actions previously committed to in order to correct this position.
3. The Authority should ensure that all transformational projects, whether funding via the flexible use of capital receipts or not, have robust business cases produced in order to justify the time, effort and financial resources being allocated to them.
4. The Authority should also ensure that professional business cases should be prepared on a consistent basis (a standard template would assist this), scoped in appropriate detail and subject to an appropriate level of challenge and assessment prior to their approval. Such business cases should be aligned with the Authority's strategy objectives, and provide a clear rationale, supported by evidence, on the transformational impact they are expected to have.
5. In addition, the Authority should also ensure that there is a robust governance process in place for each transformational project, at department level but also with clear oversight centrally from the Chief Executive, as well as input from the Director of Transformation and S151 Officer. Considerations should include project plans, risk registers, budgets, key milestones and deliverables to measure outcomes and grade success. There should be regular monitoring and reporting internally of scheme progress, including to ensure appropriate decisions are being made regarding continuing a scheme, providing further funding, or stopping a scheme when it is not expected to deliver the benefits promised.
6. The Audit Committee should receive regular reports into transformational scheme progress in order to gain assurance that appropriate controls and processes are in place, and that the Authority is making informed decisions based on accurate information and value for money considerations.

The Council accepts, that as part of the Budget setting processes for 2016-2018 financial years, the Council should have taken a 'bottom up' approach to identifying transformation projects. Furthermore, these projects should have been underpinned by robust project management and governance arrangements in order to be funded by the flexible use of capital receipts. Instead, a 'top down' financial target was built into the budget, based on high level principles of the Next Generation Council transformation. In addition, inconsistent project management methodologies and project governance arrangements were applied, which then resulted in project expenditure needing to be identified retrospectively. This approach resulted in the Council not being compliant with MHCLG's disclosure requirements. However, the s.151 Officer's judgement at the time was that, it was not unlawful to apply the flexible use of capital receipts in this way.

Flexible Use of Capital Receipts audit working papers for 2017-18 were originally completed on the same basis as the papers accepted, and signed off by KPMG, the external auditor, as part of the 2016-17 annual audit of accounts.

However, during the interim 2017-18 audit KPMG were clear that this approach would no longer be acceptable, and much more detail would be required for the review of the current year's projects, as well as reopening the previous year's projects for a further review. This was a perfectly reasonable request but involved providing more detailed working papers.

The Council recognises that, over the period 2016-2018, its project governance was weak due to two main factors. Firstly, the Council's approach to transformation was not set out in a cohesive Transformation Strategy. Secondly, project management resources were not utilised effectively leading to inadequacies in business cases and effective decision-making. This in turn led to the difficulties encountered when seeking to provide, retrospectively, project management information on transformation schemes.

Project documentation and information was held by officers who had subsequently left the Council's employment and had not made records easily accessible. This made collecting project management information problematic. KPMG were made aware of this issue but it is fair to say that this did cause significant delays in the production of revised working papers.

In relation to specific project delivery, the Council was always clear that a significant number of transformation projects were delivered by existing permanent staff and time apportionments were made to capture elements of time spent on delivering 'transformation' project work. This principle was reported to Cabinet in March 2018 in the Council's Flexible Use of Capital Receipts Strategy.

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
1	1	<p>Transformational Schemes funded by Capital Flexibilities</p> <p>Detailed findings on previous page.</p>	<p>However, this methodology was later deemed non-compliant by KPMG during the 2017-18 audit of accounts. In 2017/18, projects were deemed by KPMG to be non-compliant from both 2016-17 and 2017-18 financial years. The reason for this was that, even though the expenditure was time limited and supported the delivery of a saving, the project evidence could not substantiate the claim that the activity was 'transformational'. Finally, there were also queries from KPMG that led to the removal of projects which were not supported by adequate business cases.</p> <p>Unfortunately, the discussions with KPMG on these issues happened after the draft Accounts were published. This resulted in significant changes to the final accounts because both the 2016-17 and 2017-18 financial years were affected. The Council has adopted a markedly different approach in 2018/19.</p> <p>Recommendation 1: Agreed</p> <p>The Council has formally adopted a Transformation Strategy. Full Council approved the Transformation Strategy and Flexible Use of Capital Receipts in November 2018. Cabinet and full Council approved a revised strategy for the use of capital receipts in February 2019 along with 2019/20 Budget.</p> <p>Furthermore, the Council has adopted a robust approval and monitoring process that is applied whenever the use of capital receipts is considered. The purpose is to ensure that capital receipts are only applied to qualifying, verified expenditure and that the delivery of anticipated outcomes is confirmed.</p> <p>Recommendation 2: Agreed</p> <p>The Section 151 Officer can confirm that the authority is complying with the Flexible Use of Capital Receipts rules in 2018/19 due to the assurance delivered by a comprehensive joint review of transformation projects from finance, service directors and the project management office. The Council places responsibility for compliance with all rules and regulations relating to grant claims with the Section 151 Officer and hence the Monitoring Officer will not be reviewing these arrangements. The Section 151 Officer will seek advice as appropriate from the Monitoring Officer. The Section 151 Officer in post in 2017/18 has now left the Council's employment.</p> <p>Recommendation 3: Agreed</p> <p>In 2018/19 the Council has implemented a thorough process for the effective and timely management and administration of all transformational projects, which includes the development of business cases. Financial and other implications are set out in the business cases.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
1	1	<p>Transformational Schemes funded by Capital Flexibilities</p> <p>Detailed findings on previous page.</p>	<p>Recommendation 4: Agreed</p> <p>Whilst the Council had an industry standard approach to, and template for, the development of business cases in 2017/18, it was not used consistently across the Council.</p> <p>Furthermore, in 2017/18, support was available for project and programme management from the BIPM team, but these valuable resources (and the many skilled and experienced people within the team) were not deployed effectively and consistently across the Council. A thorough project management process has now been implemented consistently across the Council and the BIPM team plays a pivotal role.</p> <p>One of the reasons that the Council has been able to make such rapid progress in 2018/19 on transformation projects is that the skills and capabilities of existing NCC staff have been harnessed by a strengthened NLT with a clear sense of direction and purpose set out for all to see in the Transformation Strategy. Please note that the Council's top priorities were re-stated in August 2018 in the Council's response to the issuance of the second s.114 Notice. The revised transformation process includes the explicit linking of projects to the Council's priorities and a great deal more.</p> <p>Recommendation 5: Agreed with amendment.</p> <p>The Council considers that the effective governance of transformation work is of such importance to achieving and sustaining financial equilibrium that a Director of Transformation has been appointed with this specific responsibility.</p> <p>A Transformation Board has been established, led by the Chief Executive. All members of the Executive Team are active members of the Board, the Director of Transformation and the Section 151 Officer have key roles. All of the features mentioned by KPMG are part of the Council's process which is now being consistently applied in all Directorates.</p> <p>Please note the comment above on the role of the Director of Transformation.</p> <p>It is important to note that the Transformation Strategy and process is only effective in bringing about change if Directorates act upon it and work towards delivering it. To this end, each Directorate has its own Transformation Board monitoring all projects (progress, risks and actions) at a detailed level. This Board is also supported by weekly financial reviews and the use of a centrally maintained savings tracker that facilitates the tracking of actual versus projected savings on a monthly basis.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
1	1	<p>Transformational Schemes funded by Capital Flexibilities</p> <p>Detailed findings on previous page.</p>	<p>The Chief Executive gives a considerable amount of her time and energy to monitoring progress on transformation and change. The Chief Executive challenges and encourages senior managers to maintain momentum and to bring about improvement, pays attention to the detail and looks for evidence of the impact of the action taken.</p> <p>This is mirrored by the services and Executive Directors and their senior teams (Finance, project teams and intelligence functions) undertake regular service reviews, challenge sessions and actions to mitigate any risks or issues.</p> <p>Often the impact will be evidenced by the delivery of savings but there are many examples where service delivery and value for money have been improved at the same time as savings have been delivered. By taking such an active role, Directors are encouraged to keep their shoulders to the wheel and to encourage their senior teams to do the same. This is a good example of how much of a difference effective leadership makes to an organisation. The Cabinet’s political leadership, support and engagement is a critical factor in creating the right environment in which the Leadership Team can operate effectively. The Cabinet and the executive team meet on a regular basis and have constructive discussion and debate, leading to effective decision-making.</p> <p>Recommendation 6: Agreed</p> <p>The Audit Committee was briefed in March 2019 on the Council’s approach to leading, managing and administering transformation. The Audit Committee will have regular briefings on progress. The Transformation Board, and the Director of Transformation in particular, welcomes this level of oversight and accountability.</p> <p>The Transformation Strategy is underpinned by a programme of work and a series of projects for each service area. The projects are described in detail in business cases, where necessary. Each business case is subject to a series of “robustness assessments” involving the PMO team, finance business partners, service managers and Directors and the outcomes are reported systematically to the Transformation Board.</p> <p>A full briefing was undertaken with the Cabinet and Overview and Scrutiny Committee with a focus on the points of difference between the Council’s previous approach to managing transformation and the robust approach to leading, delivering and governing transformation that is now in place and is set out in the Transformation Programme.</p>

Key issues and recommendations (cont.)

#	Risk Issue & Recommendation	Management Response as at July 2019
1	<p>Transformational Schemes funded by Capital Flexibilities</p> <p>Detailed findings on previous page.</p>	<p>The Overview and Scrutiny Committee also undertook several “deep dive” exploratory sessions on specific projects, such as Learning disabilities and the Shaw Health care savings to try and understand the robustness of the cases, the confidence of delivery and the risks. Follow up sessions on progress have also begun or are planned.</p> <p>In addition to the involvement of Members of the Audit Committee in the monitoring of progress and governance of transformation projects, there has been some involvement of Cabinet Members in the development and implementation of transformation projects.</p> <p>Directors regularly discuss transformation proposals with portfolio holders to ensure there is agreement on the strategic direction of programmes of work and projects. For example, a Place Portfolio Board meets monthly to review the financial position (including savings and pressures), the progress with capital projects and with the transformation programme. New performance dashboards have also been developed to monitor service delivery alongside financial information. The Portfolio Holder plays an active part in the governance of the highways contract and sits on the Waste Board and the Waste Partnership Board alongside Members from across the county area.</p> <p>In Adult Services, the DASS and Portfolio Holder have weekly meetings to discuss the transformation and operational plans and to discuss budget updates. The Portfolio Holder also receives advance briefings and updates on all business cases and savings initiatives to be presented at Committees, Cabinet or full Council.</p> <p>A quarterly Adults Social Care Board is also in place and attended by the Leader, and Portfolio Holder and key external partners (including Health and the Police) to review the overall performance of the service and progress of transformation plans and savings initiatives.</p> <p>Similar arrangements are in place in Children’s services and the department has made progress in recent months with the development of a new, ‘target operating model’. The newly appointed Director will continue to drive improvement in this critical area of service.</p>

Key issues and recommendations (cont.)

Risk Issue & Recommendation

Management Response as at July 2019

Re-employment of staff members

Detailed findings on Re-employment of staff members are on page 69. As a result of our detailed work following recommendations are raised:

1. The Authority should ensure that business cases are prepared for the procurement of off-payroll workers or other such engagements of a consultancy nature. The business case should detail why this role cannot be performed through a substantive post, and justify the procurement process the Authority wishes to undertake. Value for Money considerations should be evidenced throughout.
2. Where the procurement process is by-passed there needs to be clear documentary evidence as to the reasoning behind this and why a certain individual has been chosen outside of competitive tendering, and the approval for this within the Authority should be clearly evidenced in line with the Authority's financial controls and procedures.
3. In addition, where such decisions are being made within LGSS on behalf of the Authority, the Authority needs to assure itself that its controls are being operated appropriately.
4. Where an individual previously employed by the Authority is re-engaged on an off-payroll basis, the Authority should undertake and clearly document all the relevant legal and tax considerations in advance of confirming such an appointment.
5. The Authority should, as a matter of priority, also undertake a full review of its off-payroll arrangements to gain assurance that its arrangements are proper and correct, including compliance with IR35.
6. A detailed central register of all off-payroll workers should be maintained and reviewed regularly to ensure continued compliance.

Recommendation 1: Agreed

The issues raised in this Section emanate from one appointment made by LGSS of one member of staff who retired, gained access to their pension and, within one day, was re-engaged as a consultant. The Council has recently revised its Consultants and Interim policy, <http://sharepoint.lgss.local/Pages/Consultants.aspx>, which contains clear direction on the engagement of such workers, including a consultancy checklist from HMRC which covers the KPMG recommendations.

Recommendation 2: Agreed

The Council's Policy on the Appointment of Interims and Consultants will apply. The engagement manager will, in accordance with the Policy, fully document the process and consider all the relevant legal and tax considerations in advance of confirming such an appointment.

Recommendation 3: Not agreed

LGSS is not a stand-alone body, it is a Joint Committee of the Council and has a clear set of delegations that should be followed. The operating model of LGSS is under review currently and the application of appropriate controls will be considered dependant on final decisions.

Recommendation 4: Agreed

The Council now has a clear Policy, on the Recruitment of Consultants and Interims and will follow it. The Policy includes a requirement to comply with IR35 and engagement managers are directed to HMRC's guidance on how to determine whether engagements fall inside or outside of the IR35 rules.

Recommendation 5: Agreed

The Director of Human Resources will undertake a review with each Director to establish whether any off-payroll arrangements are in place and will consider whether these arrangements should continue for a time limited period or cease. The objective will be to ensure that the authority is compliant with IR35 through a robust application of the policy on the Recruitment of Consultants and Interims. This work will be led by HR, completed by 30 September 2019 and the findings reported to NLT.

Recommendation 6: Agreed

An appointment of a consultant or interim will be made in accordance with the Council's Policy for agency or consultants and interims, if their appointment is deemed to fall within IR35, will be paid through an umbrella company and therefore tax and employer's and employee's NI will be deducted. If their appointment falls outside IR35 they will be set up as a supplier and will have a record on the 'accounts payable' part of ERP Gold.

Key issues and recommendations (cont.)

Risk Issue & Recommendation

Management Response as at July 2019

Contracts Register

It is essential that the Authority has an effective contract management framework. A contract is a legally enforceable agreement, therefore it is vital, when entering into a contract on behalf of the Authority, to ensure that:

- The correct procurement process has been followed;
- The highest standards of probity in all dealings have been maintained;
- The interests of the Authority are protected;
- The rights and obligations are clear to all and the contractual relationships are clearly defined, deliverable and documented; and
- Verbal agreements are avoided.

As noted in our reporting, our review of the Authority's contract register confirms that this is an incomplete and out of date document. As such, it does not contain the latest information on all contracts the Authority currently maintains, and there is a risk that the Authority does not understand, at any point in time, the total quantum of contracts it is signed up to.

Risk

Likewise, without an accurate contract register, this makes the management and oversight of contracts difficult, and results in poor financial controls. For example, without knowing when contracts end, the Authority may find it does not have sufficient time to undertake a new tender process before the contract expires, and therefore has to either undertake a contract extension or a shortened procurement process in order to maintain the supply of goods or services. Both of these options could lead to poor value for money.

Recommendation

1. The Authority should, as a matter of priority, undertake a full review of its current contracts and ensure that they are all centrally recorded and maintained on a Corporate Contracts Register. This register should act as the sole version of the truth, be kept up-to-date, and be regularly reviewed by the Authority. Periodic checks should be undertaken to ensure the information is accurate and complete.
2. The Authority should ensure that a standard process is in place for contract management and review the potential for bespoke contract management software.
3. The Authority should ensure that its policies and procedures are also fully up-to-date and provide staff with applicable guidance on how contracts should be entered into, monitored, reported and managed. This should be supplemented by further staff training regarding contract management and linked to procurement policies and procedures.

The Council recognises that more work is required in respect of compliance with procedures, and will enforce sanctions for those employees who do not meet the appropriate standards. The Council approved new Contract Procedure Rules in August 2018 which specify that all contracts over the value of £5,000 in total must be included in a Contracts Register by the Officer responsible for the contract information. In addition, clearer instructions have been stipulated throughout the Contract Procedure Rules (referred 44 times in the document) with regards to;

- 1) Officer duties to update the contracts on the register for many circumstances and;
- 2) Chief Officer duties to ensure their Officers comply and maintain a responsibility of the register within their service directorate.

A Contracts Register Protocol document has been produced which details what contracts should go on the register and in what manner to ensure consistent data.

The Procurement team has begun producing a contract register dashboard report and make these regularly accessible via the intranet for Officers and Chief Officers to enable departments to better analyse contract register data for their areas. A new programme on producing a Contract management SORP along with a Contract Management toolkit and training is underway with a draft currently circulating amongst stakeholders in the Council.

The importance of the contract register is included in the procurement training and included in the Procurement SORP and will be included in the soon to be released Contract Management SORP. The Council is reviewing whether to make this training mandatory. A new Contract Review Board has been established, comprising the Executive Director of Place and Commercial, Assistant Directors from each Commissioning area, the Head of LGSS Procurement and a members of the Transformation Team. The focus of this board includes reviewing contracts for opportunities to plan for new procurements and negotiate extensions as well as act as another prompt to keep contract register data up to date.

Named contract managers on the contract register will receive a reminder for the contract they own as it nears expiry. As a second prompt the Procurement team will periodically send out a reminder of groups of contracts expiring to relevant Heads of Services or Chief Officers to follow up with their teams so as to ensure better planning. The first of these was sent out in May 2019.

The Head of Procurement is working with the LGSS ERP team to investigate the possibility of using the Council's ERP system to provide a contract register function via Agresso/ERP Gold at a point when suppliers are set up or purchase orders requested and link actual spend with contractual commitments. Initial tests indicate this may be possible with low to moderate business process change for the large numbers of staff raising order. This work is currently ongoing and the costs to implement and maintain such an arrangement is not yet known.

Key issues and recommendations (cont.)

Risk Issue & Recommendation

Management Response as at July 2019

Contracts Register (cont.)

4. Roles and responsibilities in relation to contract management should be clearly defined within the Authority, both at departmental level but also from senior management. The roles and responsibilities, including oversight and compliance, should also be defined in respect of the NCC – LGSS relationship.
5. The Authority should ensure that its high-risk contracts (by value or critical supply) have the appropriate resource available to monitor and challenge performance of suppliers, in order to ensure that expectations are met, and value for money is continually delivered.
6. The Authority should also ensure that, where applicable, contracts have the right for the Authority to undertake “open book” audits and review the information provided to it by the relevant supplier to ensure that KPI’s are being delivered as stated. This should also include the use of benchmarking and performance measurement data to ensure that value for money is maintained.
7. In addition, the Authority should undertake a regular review of its suppliers to ensure that they are still viable and able to maintain supply of goods and services within the current economic environment.
8. Ultimately, the Authority’s S151 should have oversight of contract management arrangements, and a regular report taken to Audit Committee regarding the assurance arrangements in place in this critical area.

Recommendation 2: Agreed

The Council acknowledges that as part of the contract review work, it was identified that NCC contract managers were adopting different practices. Furthermore, the current segregation of procurement and contract management responsibilities between LGSS (Procurement) and the Council commissioners/service areas has contributed to some of the poor contract management and monitoring practices described.

The Council has invested in additional resources to deliver a Contract Review Board which has specifically identified Contract Management as an area for improvement and external advice has been procured to will provide additional capacity and expertise. This includes developing a SORP for Contract Management and Monitoring and reviewing training.

Currently LGSS is responsible for the procurement process as part of a shared responsibility with the LGSS partner authorities and all other aspects of the commissioning cycle, including specification, contract management and monitoring reside with the Council.

A review of delivery of the Council’s procurement function will be carried out in the period between now and the formation of new unitary authorities, which will ensure that there is clarity in relation to roles and responsibilities under Contact Monitoring and Management.

This review will include a review of the future operating model for the procurement function and how better integration with wider commissioning and contract management activities undertaken by the Council are achieved.

Recommendation 3: Agreed

The Council adopted an updated version of the Contract Procedure Rules in August 2018 which includes more rules and guidance on Contract Management and Monitoring and the responsibilities of contract owners.

The Contract Procedure Rules are supported by a comprehensive Procurement SORP containing the council’s processes and policy with regards to procurement and which is reviewed annually.

The Procurement pages of the intranet is kept up to date and includes the Procurement SORP, The Contract Procedure Rules, Who to contact in the LGSS Procurement team, tools for quotations, tools for advertising, tools and guidance on the contract procedure rules.

The Contract Management SORP will further define roles and responsibilities and its introduction will be supported with training.

3

1

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
3	1	Contracts Register (cont.)	<p>One of the recommendations from the Contract Review Board is to review training for staff in existing policies and procedures and develop a programme of staff training with recommendations on how it will be delivered so that contract management and reporting are in line with best practice particularly in services that manage contracts of high value.</p> <p>LGSS Procurement offer 4 types of procurement training for Officers. Pre procurement training, procurement under £100k, Procurement over £100k and evaluation. The Board will review whether to make some of these mandatory.</p> <p>Recommendation 4: Agreed</p> <p>The Contract Procedure Rules include clearly defined roles at departmental and senior management level.</p> <p>The Contract Management and Monitoring SORP will further define roles and responsibilities across the Council.</p> <p>Currently LGSS are only responsible for the procurement process as part of a shared responsibility with the LGSS partner authorities and all other aspects of the commissioning cycle, including specification, contract management and monitoring reside with the Council.</p> <p>A review of delivery of the Council’s procurement function will be carried out in the period between now and the formation of new unitary authorities, which will ensure that there is clarity in relation to roles and responsibilities under Contract Monitoring and Management.</p> <p>This review will include a review of the future operating model for the procurement function and how better integration with wider commissioning and contract management activities undertaken by the Council are achieved.</p> <p>Recommendation 5: Agreed</p> <p>The Council has identified several high cost or high risk contracts and concentrated efforts on improving contract monitoring and challenging performance with a view to ensuring that services provided are fit for purpose and provide value for money. Examples include: Adult Social Care PFI, Home to School Transport, the Highways Contract and the WAN Contract.</p> <p>The contract procedure rules define “high value” as any contracts over the EU threshold of £180,000 over the life of a contract. “High risk” is not defined but was intended to cover instances where failure would have significant financial or reputational risk to the Council.</p> <p>The new Contract Management SORP currently in progress is expected to provide an assessment of risk levels categorisation of contracts.</p> <p>In addition, the Contracts Review Board has prioritised the Council’s contracts that are not already subject to specific Transformation Projects. The primary purpose is to ensure which contracts could be considered for renegotiation with suppliers to improve value for money.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
3	1	<p>Contracts Register (cont.)</p>	<p>Recommendation 6: Agreed</p> <p>The Council has provided dedicated resources to support reviews of high value and high-risk contracts (e.g. the Highways arrangement with KIER/WSP and the Shaw PFI and PPP for adult social care) to ensure that appropriate approaches to benchmarking and performance review are in place. In the case of Shaw PFI and PPP, support has also been sought from central government departments to ensure that contractors deliver better value for money. Both of these contracts have subsequently delivered both financial savings (see the Period 9 Monitor reported to Cabinet in January 2019) and improvements in value for money.</p> <p>Recommendation 7: Agreed</p> <p>This is an area that the Contracts Review Board has identified as high risk and has recommended that service managers be provided with appropriate training to ensure that supplier viability is kept under review.</p> <p>Where the risk of supplier failure is high some departments, for example Adult Social Care, have been provided with contingency to address the issues that could potentially arise.</p> <p>Within Adult Social Care information on market stability, provider financial stability and joined up planning in the event of a risk of provider failure are provided regularly by the regional ADASS forum. Market viability assessment tools are provided and any useful intelligence and data is shared to allow for the service to plan for any perceived risks and prepare accordingly. This has happened in several cases and the service successfully transferred over 100 clients from Allied Healthcare with no disruption or additional cost when it went into administration recently.</p> <p>Recommendation 8: Agreed</p> <p>The Contracts Review Project Board has recommended that contract management and monitoring arrangements be reviewed across the Council and this is also being considered as part of the review of LGSS.</p> <p>KPMG's recommendation in relation to the establishment of regular reporting to the Audit Committee on the assurance arrangements will be included as part of that review.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
4	2	<p>Single Tender Waivers</p> <p>As noted above, the Authority has on a number of occasions not followed expected procurement procedures in the awarding or extending of contracts. In some cases, this is perfectly acceptable if due process is followed, for example in relation to the approval of a single tender waiver.</p> <p>Risk</p> <p>However, as we found in the cases we reviewed, there is no set documentary evidence of this process, and such exceptions are not centrally recorded or reported. This makes it impossible for proper oversight to be maintained, and for assurance to be gained that these exceptions are genuine and acceptable.</p> <p>Recommendation</p> <ol style="list-style-type: none"> The Authority should ensure its procurement and single tender waiver processes are clearly documented to all staff across the organisation, including those that work on their behalf within LGSS, and that all staff are made aware of their existence, and their responsibility to follow such procedures. The ability to raise single tender waivers should be restricted to specific reasons, and a hierarchy of approval (linked to Standing Financial Instructions) should be included. Ultimately, the S151 should have oversight and approval of all instances of single tender waivers. A report should be presented to Audit Committee on a regular basis detailing the number of waivers, their value, the reason for them, the individuals proposing and approving such exceptions, and other pertinent details as the Authority sees fit. This will allow proper, robust challenge and oversight of the process and provide assurance that proper procurement procedures are not being bypassed inappropriately. Where single tender waivers are used due to timing issues, the Authority needs to investigate why action was not taken previously to avoid this situation and ensure that proper processes are followed. 	<p>Recommendation 1: Agreed</p> <p>The Council operates an electronic system for recording waivers offering a strict structure of content to complete and a clear auditable approval process.</p> <p>Contract Procedure Rules were reviewed, refreshed and approved by full Council in August 2018. These rules form part of the Council's constitution. The revised rules clearly state that a waiver must be sought where less than 3 bids are obtained.</p> <p>Since the Section 114 Notice, the Council's expenditure has been subject to additional scrutiny by the Chief Executive's Approval Panel CEAP.</p> <p>Recommendation 2: Agreed</p> <p>As explained above The Council operates an electronic system for recording waivers offering a strict structure of content to complete and a clear auditable approval process. The e-form does require information to explain what measures have been taken to ensure an open competitive process.</p> <p>The revised 2018 Contract Procedure Rules clearly sets out the hierarchy of approval clearer than before and includes a clear flowchart on the waiver approval process in Appendix 3 that outlines the specific approvals required for contracts up to £25,000, between £25,000 and £100,000, between £100,000 and the EU Threshold and above the EU Threshold.</p> <p>Recommendation 3: Agreed</p> <p>As per the revised 2018 Contract Procedure Rules clearly sets out the hierarchy of approval of waivers. All waivers over £25,000 require (amongst other signatories) approval from the S151 which is audited electronically.</p> <p>Waiver requests require specific reasons for each waiver to be detailed and supporting guidance is available on the internet.</p> <p>The Procurement team is able to provide a dashboard of all the active waivers on the intranet which will illustrate the various trends and behaviours of active waivers, those expiring, repeat waivers and requestors and departments. Details of specific waivers can be exported from the system on request.</p> <p>Recommendation 4: Agreed</p> <p>The new processes, described above, will be embedded based upon lessons learned from the Council's previous practice. The revised Contract Procedure Rules state that the lack of forward planning does not constitute a valid reason for a waiver being requested. Any requests submitted on that basis alone will be rejected.</p> <p>In addition, the revised Rules require any contracts resulting from waiver requests to be added to the contract register to assist forward planning.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
5	2	<p>Financial responsibility of Officers</p> <p>It is clear that throughout the year, and historically, the Authority has failed to manage its finances in a sustainable way. Linked to this, we have reported numerous instances of failed financial controls or examples where evidence could not be provided that correct processes or policies had been followed.</p> <p>Risk</p> <p>Despite the Authority being responsible for the use of a significant amount of taxpayers' money, these actions could be an indicator that officers within the organisation do not fully understand the role they have as guardians of the public purse, and the importance of ensuring that taxpayers money is spent with the upmost regard to proper procedure and value for money considerations.</p> <p>Recommendation</p> <ol style="list-style-type: none"> 1. As a matter of priority, the Authority should ensure all staff are given further training so they understand the importance of abiding by the Authority's financial controls, policies and procedures. 2. The Authority should ensure that such compliance forms part of the terms and conditions of an individual's contractual employment. Where individuals have not followed controls then the Authority should consider the relevant HR process, dependent on the severity of the cases. Individuals who are found to be consistently not following proper financial procedures should be subject to appropriate performance management and retraining 	<p>Recommendation 1: Agreed</p> <p>It is accepted that there is more to do in the training and development of budget managers in effective financial and performance management. This extends to the active management of external contracts as well as to budget management. Training for all budget managers was undertaken at the start of 2018 and will be repeated periodically. By July 2019 the Strategic Finance Managers will review the effectiveness of this training for budget managers within their Departments, discuss their findings with Directors and consider what follow up training is required.</p> <p>Furthermore, the Finance Management Team are working with CIPFA to develop and implement a bespoke course on effective finance business partnering for the whole finance team, brought back in-house from LGSS, together with a small number of key post holders in LGSS that continue to deliver key financial services to NCC. 34 people will be participating in this training. It may be worthwhile using some of the material from this training programme to enhance the training available to budget managers. This option can be considered by the Strategic Managers in due course.</p> <p>Recommendation 2: Agreed</p> <p>Budget managers have been trained and effective budget management is a feature of personal development plans for budget managers.</p> <p>It is important, however, to recognise the complexity inherent in the management of resources in some service areas and the difficult decisions and judgements that have to be made by some service managers.</p> <p>Adult services has instigated detailed weekly tracking of all spend authorised and committed by budget managers and this is reviewed each week so as to understand any trends, pressures or anomalies. Panels for expenditure approval on Adults services are also now in place and tracked in terms of the spending approved, delayed and rejected spend.</p> <p>Both Adults and Children's services have also been trained in accurate forecasting and, over the last 12 months or so, have made considerable strides forward with their financial projections. Working together, finance staff, operational managers and performance staff have developed monitoring processes that take account of the flow of clients through services and are not restricted to monitoring financial information on spending which necessarily occurs after the important decisions on service allocation have already been made and commitments to future spend entered in to. Visits have been made to other authorities to adopt and build on best practice from elsewhere. This will help NCC to avoid situations arising where unpredicted multi-million pound swings in budget monitoring occur and have to be explained after the event.</p> <p>The Authority will emphasise the importance of conforming with financial regulations and procedures (SORPs), with specific mandatory outcomes being included in the 2018/19 Performance Appraisal and Development Programme (PADP) for all budget managers,</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
5	2	<p>Financial responsibility of Officers (cont.)</p>	<p>Children’s Services have initiated placement panels that are considering carefully the need for placements to be made and to make appropriate changes to existing placements. The panels are treading the fine line between balancing the interests of the most vulnerable children and young people with managing the resources available to meet the needs of these children and young people and the wider cohort of children and young people in Northamptonshire for whom services are provided.</p> <p>Place has made considerable strides forward both with financial projections and with a change in culture to one of greater openness and transparency. Place has moved from a starting position of £3m overspend to £2.9m underspent in 2018/19, with £1.5m of this coming forward in P9 following detailed review of budgets over the previous months. Demand-led budgets are monitored closely, for example, winter service expenditure is now monitored on a fortnightly basis.</p>
6	2	<p>Exit packages</p> <p>Please refer to page 71 for the detailed finding on exit packages. As a result of our work following recommendations are made:</p> <ol style="list-style-type: none"> 1. The Authority should ensure that it maintains a robust audit trail regarding the agreement of redundancy and exit packages with all staff members, including those at a senior level. This should include documentation regarding consultation from HR, Legal and Finance perspectives, and evidence regarding any such agreements being approved by the appropriate individual or body. 2. The Authority should ensure that it has documented value for money considerations in relation to every exit package agreed, including why an exit package is a preferable arrangement to other courses of action which were available at the time (e.g. performance management, disciplinary etc.). 	<p>Recommendation 1: Agreed</p> <p>For clarification, only one of the four posts mentioned left the Council with an exit package, the others resigned or services were terminated.</p> <p>The Council has a procedure for the negotiation of severance agreements for Chief Officers and it is part of the Constitution. This is also included in the Pay Policy. An agreement was reached for the departure of one Chief Officer, the former Chief Executive, in accordance with the Constitution and advice given to the former Leader was documented. KPMG have been provided with a copy of the confidentiality agreement reached with the Chief Executive.</p> <p>For roles that are not at Chief Officer level, the reasons for exits are documented in a business case. Officers have been reminded of the need to keep a record of the justification for decisions taken.</p> <p>Recommendation 2: Agreed</p> <p>The exit of the previous permanent Chief Executive was a decision taken by the former Leader in consultation with Cabinet and officer advice was documented. The former Leader and interim Chief Executive met senior KPMG members in October 2017 to outline the decision and the reasons behind it. Subsequently the 2018/19 pay policy was updated to include a statement under section 12 to formalise the arrangements for severance payments to Chief Officers.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
7	2	<p>Service Organisation Reliance</p> <p>As we have reported in previous years, the Authority relies upon service organisations for the operation of controls over key systems, including IT services and payroll services (schools).</p> <p>However, despite the importance of the work undertaken by these organisations, the Authority does not undertake work to assure itself that these controls are operating effectively, nor does it commission independent ISA3402 Service Organisation Control reports as is best practice both within the public and private sector.</p> <p>There are two types of such report, Type I and Type II.</p> <p>A Type I report describes the service organisation's description of controls at a specific point in time.</p> <p>A Type II report not only includes the service organisation's description of controls, but also includes detailed testing of the service organisation's controls over a minimum six month period. Such reports would not only provide assurance to the Authority itself, but also feed into the work of internal and external audit in order to gain assurance over such controls.</p> <p>Recommendation</p> <p>The Authority should ensure that it receives appropriate assurance from all of its service organisations, and that reports are received in a timely manner, and fulfils the criteria required to provide appropriate assurance.</p> <p>The Authority should request service organisation reports for the payroll providers (Strictly Ed and EDM) to ensure that adequate assurances over key controls are received.</p>	<p>Under consideration</p> <p>This relates to decisions made by maintained schools to purchase payroll services from external providers. The County Council accepts the recommendation and consideration will be given as to the most effective and efficient way in which the recommendation can be implemented and maintained given that current contractual obligations of the payroll providers do not include this requirement. This work will be completed by 30 September 2019.</p>
8	2	<p>Related Party Transactions</p> <p>The Authority has a policy which requires all Members and senior officers to provide an annual confirmation of any related party relationships they may have.</p> <p>This is supplemented by the audit requirement for Councillors to provide signed declaration of interest forms as part of the accounts closedown process. This information is used by the Authority to feed into its related party disclosure within the accounts, and to us as audit evidence.</p> <p>As reported in our September 2018 update report, during the course of the audit we faced significant delays in obtaining all the required declarations of interest forms from Councillors as part of our audit process.</p>	<p>Recommendation 1: Agreed</p> <p>The Section 151 Officer will ensure that all Members and senior officers complete the forms associated with the annual related parties declaration. If necessary, the Section 151 Officer will write individually to those people who have not completed the form and will follow up until a satisfactory conclusion is reached.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
8	2	<p>Related Party Transactions (cont.)</p> <p>Whilst all Members are required to disclose their interests on the Authority's register of interest within 30 days of election, this was last updated by the majority of Members in 2017.</p> <p>Risk</p> <p>Additionally, outside of this annual exercise, officers are not required to declare their interests anywhere. Low levels of response present a risk that related party transactions are not adequately and completely disclosed.</p> <p>Recommendation</p> <ol style="list-style-type: none"> 1. The Authority should ensure that it completes its annual related parties exercise in a timely manner, so that a full set of evidence is available for audit purposes. It should not accept nil returns as positive assurance that no relationships exist, but instead should require members and Officers to return the relevant forms. 2. Where delays are incurred, this should be escalated to the appropriate levels through the Authority's internal processes. 3. The Authority should ensure that it completes its annual related parties exercise in a timely manner, so that a full set of evidence is available for audit purposes. It should not accept nil returns as positive assurance that no relationships exist, but instead should require members and Officers to return the relevant forms. 4. Where delays are incurred, this should be escalated to the appropriate levels through the Authority's internal processes. 5. As part of this process, the Authority should ask Members to reaffirm their previous submission on the register of interests and update this on the public facing website to confirm this is the latest, rather than historical, position. 6. The Authority should ensure that both Members and officers receive appropriate training and reminders regarding their responsibilities in this area, and that it forms part of Officers' contractual terms and conditions. Where Members and/or officers are found to not have declared a specific interest, then appropriate HR and legal processes should be followed. 	<p>Recommendation 2: Agreed</p> <p>Recommendation 3: Agreed</p> <p>Recommendation 4: Agreed</p> <p>Recommendation 5: Agreed</p> <p>Recommendation 6: Agreed</p> <p>Member training on this issue has recently been provided and the level of attendance was high. Directors will be asked, by 30 August 2019 to have this as an item on their management team meetings and ensure responses are sent by their senior teams in accordance with the instructions sent from the Section 151 Officer.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
9	2	<p>Gifts and hospitality</p> <p>During the course of our audit work, it was publically reported that an ex-senior employee of the Authority had failed to declare relevant hospitality he had received to either NCC as his employer, or the organisation he was working for on behalf of the Authority (under LGSS).</p> <p>It was stated in Court that this was because the then S151 Officer was unaware of who to declare such interests to.</p> <p>Recommendation</p> <p>The Authority should ensure that both Members and officers receive appropriate training and reminders regarding their responsibilities to declare gift and hospitality, including when working within another organisation but still employed by the Authority. Where Members and/or officers are found to not have declared specific gifts or hospitality, then appropriate HR and legal processes should be followed</p>	<p>The Monitoring Officer maintains a Register in which declarations of gifts and hospitality are made.</p> <p>The Code of Conduct can be accessed on the intranet.</p> <p>It is the responsibility of Members under the law to comply with the Code of Conduct and it is a contractual obligation for officers to comply with the Code of Conduct.</p> <p>Members have received comprehensive training on the Code of Conduct. The level of attendance has been recorded and attendance has been high with only a small number of Members unable to make the dates offered. Members can seek advice from the Monitoring Officer on this matter at any time.</p> <p>The Monitoring Officer would not hesitate to take appropriate action in the event that there is a failure to declare gifts or hospitality. Only one instance has been raised by KPMG of an officer failing to make such a declaration and in that instance, when the failure to disclose was identified, the officer was no longer employed by the authority.</p>

Key issues and recommendations (cont.)

Risk Issue & Recommendation

Management Response as at July 2019

Grant Terms and Conditions

As previously reported, on 15 June 2018, Public Health England wrote to the Authority to confirm that it had concluded that the sum of £7.947m (£3.49m for 2015/16, £3.763m for 2016/17, and £0.694m for 2017/18) of ring-fenced public health grant funding was used to support activities that do not meet the grant conditions.

Public Health England requested a response from the Authority on how this amount was to be reinvested. On 9 July 2018, the Authority replied to Public Health England and confirmed that to settle this matter, it was proposing to reinvest £7.9m in public health activities, via the Public Health reserve, over a period of five years.

Risk

As a result of this misallocation, we extended our testing over other ring-fenced grants and have requested evidence from the Authority that all terms and conditions for such streams of funding have been adhered to, and there is no other on-going disputes regarding possible clawback of public funds.

Recommendation

1. The Authority should ensure that it has appropriate controls in place regarding the expenditure of grant funding in order to mitigate against the risk of inappropriate use and clawback of funding by Government bodies. These controls should be tested on a periodic basis based on a risk assessment of the grant terms and conditions.
2. This testing should be undertaken through the Authority's Internal Audit function, and where appropriate also through independent external assurance.
3. These reviews should be undertaken in a timely manner before the Authority confirms back to the relevant grant funding body that it has complied with all relevant terms and conditions.
4. The outcome of the reviews should be reported to the Audit Committee to provide transparency and accountability.

Recommendation 1: Agreed

Each Strategic Finance Business Partner will hold a list of all grants in their service area with their respective grant conditions. They will ensure that a suitably trained budget manager is aware of the grant conditions and has an appropriate plan in place for utilising those resources and is aware of their responsibility with regards to spending against the grant and submitting the grant claims in line with the grant conditions and timescales. The Finance team, as part of the monthly monitoring process, will review grant expenditure in line with plans and will ensure all ring-fenced grant claim forms have been appropriately completed reviewing expenditure to ensure that it meets the terms and conditions before submission. Any queries on grant conditions will be raised pro-actively with the grant awarding body.

We have included below, as an example of the controls that the Council has in place over its grant funding, a short briefing note on Capital Grants.

Capital Grants Audit Note

Capital Grants can be received from the following sources:

- Government Annual Allocations e.g. Basic Needs, DFT Maintenance Capital grants.
- Government Bids with match funding elements e.g. BDUK, Local Growth Fund, DFT specific projects funding, EFA Funded schools, HCA, Heritage Lottery.
- External/Private Sector Grants – e.g. Anglian Water, European Social Fund.

How are they controlled/recorded?

- The Grants Register on SharePoint includes grant documents. Some grants may have revenue and capital related elements from the same source so all grants are registered together. This includes the linked project/code and the grant documents uploaded.
- Grants are either allocated directly to a specific project or held on a control account in respect of grants such as Basic Needs/Schools Condition allocations and are moved during the year/at year-end as part of funding reconciliations. A spread sheet is kept to identify projects to be funded from the grant so that the balance remaining is always known.
- Assumptions on annual grants and the priority for use is considered as part of the budget setting process.
- Any unspent grants either against specific projects or held on control accounts are carried forward at year end as capital receipts in advance or reserves depending on the conditions attached.
- Some grants will be claimed based on evidence of expenditure rather than paid in advance. The sign off of this evidence provide assurance as part of the grant being released – e.g. European grants, Local growth fund, some government grants such as Broadband, Highways England and others
- Any returns or reporting requirements for specific grants are completed.

Please note that the procedures for the administration of s.106 monies are described in Section 11.

Appendix 1:

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
10	2	Grant Terms and Conditions (cont.)	<p>Recommendation 2: Agreed This will be included in the Audit Plan. The S.151 Officer will request this when agreeing the Audit Plan with Chief Internal Auditor.</p> <p>Recommendation 3: Agreed The S.151 Officer will ensure that this point is covered in the procedure note on grant claims.</p> <p>Recommendation 4: Agreed This will be included in the Audit Committee work programme.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
		<p>Section 106 Funding</p> <p>Please refer to page 27 for detailed findings on 106 funding. As a result of our work following recommendations are raised.</p> <ol style="list-style-type: none"> 1. The Authority should ensure that where it seeks legal advice and opinion, it follows it. Where advice is not followed, officers should be held accountable for their actions, and ensure appropriate performance management processes are followed. 2. The Authority should ensure that when legal advice is received by Officers, it should be shared with the Monitoring Officer so that she can ensure that actions are then taken in line with Counsel advice and do not pose a risk to the Authority. 3. The Authority should ensure it maintains a complete and accurate record of all Section 106 funding it receives. This should include details of applicable terms and conditions, such as whether the funding is for capital projects only, specific projects, expenditure that is restricted to particular schools or geographical areas, or other criteria. Once in place, the Authority should undertake a detailed review of the terms and conditions of such funding, so it can identify potential opportunities to use Section 106 monies more widely and support revenue expenditure. 4. The Authority should ensure that it has robust controls in place for approving the use of Section 106 monies, and that evidenced robust audit trails are maintained to account for why particular items of expenditure were allowable within the specific terms and conditions, or why such conditions do not exist and therefore use within general expenditure is permissible. 	<p>Recommendation 1: Agreed</p> <p>Recommendation 2: Agreed</p> <p>The NLT will share all legal advice received with the Monitoring Officer and will ensure that this happens in future. However, the responsibility to take the legal advice fully into account in decision-making remains with the Service Director. The service Director can seek advice from the Monitoring Officer at any point.</p> <p>Recommendation 3: Agreed</p> <p>The procedures for administering s.106 funding are summarised as follows</p> <ol style="list-style-type: none"> 1. The application of s.106 receipts, when funding both revenue and capital expenditure, is controlled in two blocks by the Highways and Schools teams. 2. The capital accountant supports the process by identifying new schemes that can be funded from s.106 and by providing assurance that the grant is being applied appropriately. The capital accountant also supports the capital budget monitoring process and ensures that grants are allocated to schemes as planned. 3. Records of s.106 receipts and their application are maintained by the Highways and Schools teams who will answer any challenge and queries from developers as to the use of and balances held against specific s.106 agreements. 4. The two teams adopt different, but appropriate, approaches in terms of record keeping and reconciliations. 5. The total balance of s.106 receipts held at the end of 2017/18 was £36m. This is made up of receipts going back a number of years and there are lists of balances/unused receipts held within each area. This detail reconciles back to the amounts and is held as part of Capital Receipts in Advance balance. 6. An additional internal assurance measure will be taken to meet the concerns and recommendations of the external auditors. From a record of the s.106 receipts applied during 2018/19, a sample of the underlying agreements will be tested in order to confirm that the specific application of the receipt meets the requirements of the agreement, dates, outcomes and any ongoing commitments. 7. Further work is progressing with Highways to work towards confirming previous capital expenditure and income balances to enable the detail by scheme to be moved to ERP to reduce the reliance on spreadsheets. <p>This process is also being considered for Schools and Libraries. It will include the need to identify and set up a specific ERP code for each s.106 agreement. This was suggested at the implementation of ERP but due to challenge from the service as to the priority that should be given to this work and time pressure, it was not possible to complete.</p>
11	2		

Key issues and recommendations (cont.)

#	Risk Issue & Recommendation	Management Response as at July 2019
11	<p>Section 106 Funding (cont.)</p> <p>2</p>	<p>Recommendation 4: Agreed</p> <p>The application of s106 receipts, when funding both revenue and capital expenditure, is controlled within two blocks by the Highways and Schools teams. Records of receipts and their application are maintained, providing backing details to each of the receipts held and the purpose for those now applied. The Corporate Capital Accountant monitors this use where capital expenditure is being funded. Any such funding is reported within the formal Cabinet reports on the capital strategy.</p> <p>Although the two teams adopt different approaches in terms of record keeping, both provide the necessary level of detail. Steps are now being taken to harmonise these approaches and an Internal Audit report on this subject will be published in March 2019.</p> <p>All applications of s106 receipts are undertaken and recorded by those officers who hold the background records, allowing a clear control against all / any restrictions included in the backing agreement. This ensures that receipts are applied appropriately. Delegations with regard to decision making are applied to s106 receipts in the same way as for other funding / expenditure, with all applications subject to Chief Officer (with a subsequent report to Corporate Leadership Team) and / or Cabinet.</p> <p>A detailed report on the Council's policy on s.106 receipts went to Audit Committee in November 2018. Given that this report has a number of large appendices, it is best to review it on CMIS.</p> <p>Whilst the arrangements for the administration of s.106 monies have been tightened there is still some remaining work to be done to reconcile fully and account for some of the older balances. The Internal Audit team is conducting a review. In addition, further resources will be made available to ensure a complete reconciliation of the older balances.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
12	2	<p>Insurance Fund</p> <p>The Authority maintains an insurance provision in respect of its liabilities relating to current claims where estimates of the potential outstanding liabilities can be reliably estimated. The Authority also has an insurance reserve which provides for claims which have been incurred but not reported.</p> <p>An annual external review of the adequacy of the insurance fund is carried out by an actuary to determine whether the amount held is sufficient. The report received by the Authority in January 2018 notes a total fund requirement of £9.072m. As of 31 March 2018, the Authority accounted for a provision of £6,279,058 and reserve of £982,689 (£7,261,747 in total).</p> <p>Risk</p> <p>Therefore, in the professional actuary’s view, the Authority’s insurance fund is currently insufficient and underfunded by £1.81m.</p> <p>Recommendation</p> <p>The Authority has opted to maintain the fund at the position as reported in the draft financial statements and it is reported in this document as an unadjusted audit difference. This is above our reporting purposes, but currently (as a standalone item) not deemed material to the Authority’s 2017/18 financial statements.</p> <p>The Authority should engage with experts to obtain their views regarding many significant parts of the financial statements. This should include a pensions actuary, valuation expert, and the actuary noted above who calculates the insurance provision.</p> <p>Where such professional views are obtained but not actioned, the Authority should ensure it is open, transparent and duly records its reasoning why, and provide assurance to the Audit Committee that this does not pose a wider risk to the organisation.</p>	<p>Agreed</p> <p>In 2017/18 all actuarial advice, or similar professional advice was actioned, with the exception of insurance. This was due to the Council’s deficit position. The Council has now taking steps in 2018/19 to fully address the shortfall in the insurance reserve.</p> <p>In future the Section 151 Officer will ensure that the advice of the Pensions Actuary and the advice of the Insurance Actuary is reported to the Audit Committee at the same time as the Council is bringing forward its draft Statement of Accounts to the Audit Committee. The S.151 Officer will draw an explicit comparison between the recommendations and the extent of the related Reserves and Provisions made in the Accounts. Any variations will be highlighted and explicitly reported on.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
13	3	<p>Apprenticeship Levy</p> <p>The Apprenticeship Levy impacts all organisations which have annual pay bills of over £3m. As such, this impacts the County Council as well as most other Local Authorities. The levy, which commenced in April 2017, is charged at a rate of 0.5% of the employer’s pay bill and is put into the hands of the employer through the Digital Apprenticeship Service, sitting in an online account which can be accessed by the Authority to fund appropriate apprenticeships. In total the Authority forecasts a total of £2m of levy payments in the first two years of operation, approximately £1m per year. If levy payments are not spent within two years then this is lost by the Authority and used for general apprenticeship purposes by the private sector.</p> <p>Risk</p> <p>Forecast committed spend in 2018/19 is £127k and the cumulative total until 2019/20 (potential date for Unitary) is £294k. With the current ‘run rate’ of payments, this would mean approximately £2.7m being lost due to non-utilisation.</p> <p>Recommendation</p> <p>The Authority should ensure that as part of the finalisation of the wider workforce strategy, due consideration and attention is given to the apprenticeship levy by senior management.</p> <p>This process should also ensure that the Authority utilises as much of its contribution as it can in upskilling the workforce.</p>	<p>Agreed</p> <p>The County Council’s HR Team is undertaking a systematic and comprehensive review of the use of the apprenticeship levy both within the County Council and with partners. This work is already having a beneficial effect. For example, significant work has been undertaken to identify the roles and opportunities for apprenticeships in social services. This forms part of our workforce planning. Services already facing capacity challenges have had to balance the benefits and use of apprenticeships with the challenge that 20% of apprentice training time will be used for ‘off-job’ training. For social care in particular there was a delay in bringing forward some key roles be suitable for apprenticeships. Arrangements are now in place and the services have active plans to use these effectively to grow and develop the workforce.</p> <p>The HR Team has also offered apprenticeship resources to District and Borough partners in order to maximise the benefit to the Northamptonshire Council Tax payer.</p> <p>Social services is also in active dialogue with care providers over the potential transfer of the apprenticeship levy to the voluntary sector market to allow them to develop and grow greater capacity in the care sector. Opportunities are being explored to maximise the use of the levy in order to increase community capacity that will in turn help reduce the long-term cost of care.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
14	3	<p>External Audit Requirement</p> <p>As previously reported, in previous years, it has come to our attention that the Authority had sole ownership of a company called NEA Properties Limited. The company has always been deemed immaterial for audit purposes, and as such was not consolidated into the Authority’s main financial statements, however it did produce its own accounts which were submitted to Companies House.</p> <p>As a Local Authority, not least for transparency and accountability reasons, the company should have had an external audit regardless of the size of the company.</p> <p>Risk</p> <p>The Authority currently holds shares in LGSS Law and is part of a joint venture called LGSS OPUS. Currently the Audit Committee does not receive reports regarding these organisations, and has little oversight of their purpose, operations, or governance. The external audit reports of LGSS Law are not reported through to Audit Committee, and it is unclear if there are assurance arrangements in place for LGSS OPUS.</p> <p>Recommendation</p> <p>The Authority should ensure it is transparent in all its transactions, and complies with companies House legislation as required. Where it sets up new companies, joint ventures or other agreements, then it should ensure that robust governance arrangements are in place, support by an accountability framework and oversight by the Audit Committee.</p> <p>Where initial reporting is to a different committee, such as a Joint Committee, it is important that the Audit Committee maintains the ability to gain assurance regarding the wider arrangements in place, as well as hold officers to account as and when deemed appropriate.</p>	<p>Agreed</p> <p>The Section 151 Officer, in consultation with the Monitoring Officer, will develop and introduce a procedure that covers the steps that should be taken when setting up new companies. This will include the Council’s requirements for the governance and accountability framework for companies, joint ventures or similar arrangements.</p> <p>The only new organisation expected to be established during the County Council’s remaining life is a Children’s Trust. The governance and accountability arrangements will be set out in a report to Members at the appropriate time.</p> <p>In addition, consideration will be given to each Joint Committee or separate company to prepare an Annual Report which could be considered by Audit Committee before being presented to full Council.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
15	2	<p>Journals</p> <p>The Authority currently have weak controls and processes in place regarding the evidencing of journal approvals. For example, we noted that on a number of occasions approval is often deemed to be implicit by an individual copying in the budget manager to an email being sent to the systems team to upload the journal.</p> <p>This relies on the budget manager reviewing every email and then raising issues if they do not approve the posting. There is a risk that journals are not reviewed appropriately due to the inefficiency of the system and volume/quantity of email communications being sent.</p> <p>Risk</p> <p>Likewise, a previous control deficiency we raised in 2016/17 has not been corrected by management, and therefore anyone with access can post journals into the pension ledger without authorisation, they do not have be part of the team, and there are no limits on journal values.</p> <p>Recommendation</p> <p>The Authority should undertake a detailed review of its journal processes across the organisation, including controls over feeder systems.</p> <p>It should ensure that a robust series of controls are put in place within EPR Gold to ensure only appropriate and duly approved individuals can post journals, that there is clear system of approval and segregation of duties, that approval is line with Authority Statutory Financial Instructions (SFIs), and that regular monitoring takes place to ensure access levels are appropriate depending on job description, access is removed from old users in a timely basis etc.</p>	<p>The County Council accepts that there were some weaknesses in journal controls. However, these were mitigated by the fact that journal controls are carried out by the Finance teams under the supervision of qualified accountants. Nevertheless, the County Council has implemented a new financial system, ERP Gold, and has been mindful of KPMG's advice in establishing the controls on the new system. These controls are set out below.</p> <p>The County Council has implemented a new financial system, ERP Gold. The controls over journal entry are as follows:</p> <ul style="list-style-type: none"> • A system password is needed to process a journal; • System users need to be assigned a specific role to be able to process journals and be assigned an 'auto-approval'. This includes professional finance staff, the business systems team, HR, AP and AR. • All journals have a record as to who uploaded them; • The journals must balance, must use valid codes, and can only be posted into open periods. • All budget managers should be reviewing their balances and transactions at the end of the month and investigating exceptions; • Journals can be reported on and reviewed, by exception, by Finance at any time; • Any journals found to be incorrect can be easily reversed; all entries will show on the audit trail. • Bulk upload journals. Large, multiple line journals over a particular size/value – mostly internal recharges. Rather than these journal having to be approved on a line by line basis, the system picks the first line of the journal, looks up which directorate it belongs to and then send the journal to the nominated finance contact for that directorate who is then asked to review and approve the whole journal for posting. • For the remaining, small size/value journals – these go to service managers for approval. This is based upon the coding of the lines within the journal and the HR hierarchy for staff within those directorates (based upon the Tier 4 hierarchy of the codes within the journal). <p>The Section 151 Officer will consider whether further primary controls are also required and whether a review and authorisation stage should be introduced. This will be discussed with Strategic Finance Managers and the Deputy s.151 Officer and a decision reached by the end of August 2019. Steps will also be agreed by this group to ensure that access is removed from old users in a timely fashion.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
16	3	<p>Reconciliation</p> <p>As part of our controls work, we tested the December 2017 payroll reconciliation. We found that the reconciliation had not been fully completed due to outstanding items which had not been investigated or resolved. We noted that outstanding unreconciled items included some dating back to March 2015 and earlier years.</p> <p>Risk</p> <p>Without an appropriate and robust reconciliation in place there is a risk the payroll costs recognised in the General Ledger do not match the amounts on the payroll system.</p> <p>These issues had not been identified by senior management as part of their review process.</p> <p>Recommendation</p> <ol style="list-style-type: none"> 1. The Authority should ensure that all key control account reconciliations are carried out in a timely manner to ensure the accuracy of its financial reporting. 2. Where there are reconciling items to investigate, these should be cleared off within a maximum of 3 months during the year, or immediately as part of the closedown at year end. 3. Senior management within finance should ensure they review reconciliations on a regular basis to ensure controls are operating as intended as part of their role in ensuring quality checks take place. 	<p>1. Agreed.</p> <p>KPMG’s points have prompted further investigation. The further investigation of control and suspense accounts as a whole has revealed some weaknesses in the present arrangements which are now being addressed.</p> <p>In brief, whilst a number of officers are individually reconciling control and suspense accounts, no one officer presently has an overview and signs off the reconciliation of all of these accounts as a whole on a regular basis.</p> <p>Furthermore, there are some gaps in knowledge and skills that have been identified as well as the need for clear written procedures.</p> <p>There is a disconnection in some areas between the LGSS Officers undertaking technical and IT systems roles and the Officers within the repatriated NCC Finance Team. No criticism is intended here, the individual Officers are undertaking their respective roles diligently, but the connections across the system as a whole are weak in places. Oversight of the system as a whole needs to be improved and responsibility assigned to close gaps in the system as a whole.</p> <p>These points will all be addressed as part of the close down process for 2018/19 under the direction of the S.151 Officer.</p> <p>The majority of suspense and control accounts have been reviewed for legacy issues with progress reported to Cabinet. Payroll control accounts are the final area of review and work is still on going in this area, the resolution of any legacy issues identified will be reported to Cabinet</p> <p>2. Agreed</p> <p>LGSS processes have been reviewed and working papers updated each month to ensure that reconciliation issues are investigated and cleared. Nonetheless there is more to do. The purpose of each reconciliation and control account and their inter-relationships will be set out in a procedure note. Furthermore, these accounts will in future be used for their stated purpose.</p> <p>It is acknowledged that there needs to be more ownership by the Finance Team of the items sitting in suspense and control accounts and the potential impact on the revenue monitoring. Closer working between the LGSS and the Finance teams is necessary and a routine mechanism will be established for this purpose.</p> <p>A monthly report will be prepared for the S.151 Officer by LGSS which will include commentary from the Deputy S.151 Officer on the implications for revenue monitoring, so that oversight can be maintained.</p> <p>3. Agreed</p> <p>Currently Senior Managers review the Control and Suspense Account spreadsheet which includes the main control accounts and is updated monthly. These arrangements will be strengthened and a quarterly report will be prepared for the S.151 Officer so that oversight can be maintained. A recent review identified that Schools’ payroll control accounts had not been cleared, which is being addressed.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
17	3	<p>Payroll Leavers</p> <p>As part of our testing, we reviewed leavers from the Authority. Of the total of 25 leavers tested, for seven individuals, payroll were only notified after they had left the organisation.</p> <p>Risk</p> <p>Two of these seven late notifications resulted in overpayments being made. Whilst one payment was recovered by deducting from a tax rebate, the second overpayment has been passed to the Overpayments Team and to date has not yet been recovered.</p> <p>Recommendation</p> <ol style="list-style-type: none"> 1. The Authority needs to remind staff that as soon as an individual has handed their notice in and there is an agreed leaving date, then HR / payroll should be notified as soon as possible. 2. The Authority should ensure this process is as efficient as possible, using electronic notifications to cut down the risk of lost paperwork or delays in HR / payroll receiving this via internal post. 3. The proper use of establishment lists or spot checks will also mitigate against the risk that individuals remain on the payroll when they have left the organisation. 	<p>Recommendation 1: Agreed</p> <p>A reminder will be placed on 'Informer' by the Head of HR by 30th August 2019. In addition, NLT will cascade a reminder through their Directorate line management structure at the same time.</p> <p>Recommendation 2: Agreed</p> <p>The HR Team will consider how this message is communicated and reinforced to all staff. The audit team reviewed the Oracle system in 2018. ERP Gold has since been introduced and it uses electronic notification for the majority of processes.</p> <p>Recommendation 3: Agreed</p> <p>Whilst these checks are already in place, The Director of HR and S.151 Officer will consider whether further checks are necessary by the end of August 2019.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
18	3	<p>Leavers IT Access</p> <p>As part of our testing, we reviewed leavers from the Authority to confirm their system access had been revoked in a timely manner (i.e. on the day they left). We noted 62 leavers whose access had not been revoked. After reviewing their last log in dates, we found four users who had apparently logged in after their official leaving date.</p> <p>Risk</p> <p>Whilst three of these users only had low risk/read only access, one user did have approval access. On further investigation we found the account had not been used to approve any transactions.</p> <p>Recommendation</p> <p>The Authority needs to ensure that all relevant parties (IT, HR, Payroll etc.) are informed as soon as an individual has handed in their notice in and there is an agreed leaving date.</p> <p>The Authority should ensure this process is as efficient as possible, using electronic notifications to cut down the risk of lost paperwork. The proper use of spot checks / system reports will also mitigate against the risk that accounts remain active when individuals have left the organisation.</p>	<p>Agreed</p> <p>This report refers to the previous ERP system. Since the introduction of ERP Gold the notifications to IT are automatic and electronic.</p> <p>The ERP Gold system uses electronic notifications for the majority of processes.</p>

Key issues and recommendations (cont.)

#	Risk Issue & Recommendation	Management Response as at July 2019
19	<p data-bbox="174 285 718 314">One Angel Square: Governance and Valuations</p> <p data-bbox="174 335 772 507">The Authority should ensure that when transactions such as the sale and leaseback of One Angel Square are proposed, that officers should be required to obtain Cabinet approval, and also ensure that all necessary information provided to Members for decision-making purposes is complete, factual and correct.</p> <p data-bbox="174 528 772 700">Officers should ensure that Members are being presented with all the relevant information in respect of reports commissioned, due diligence undertaken, and any other pertinent calculations feeding into the financial business case, to ensure a robust and well informed decision making process.</p> <p data-bbox="174 721 772 1058">Senior Officers should ensure that they understand the difference between a feasibility assessment report, and an independent valuation report, most especially when providing information to Members for decision making purposes. If uncertain, further guidance should be sought from relevant experts, to ensure that any statements made either in business papers or verbally at the meeting, are factually correct. Where statements are discovered to be incorrect, immediate corrective action should be taken to rectify these, and if deemed to be deliberately misleading, further steps should be considered.</p> <p data-bbox="174 1079 772 1417">Where critical information is reported as being provided to a Scrutiny Group, the reporting of what this information actually was, where it came from, and what it said, should be clear and concise so that all Cabinet members can make an informed decision, and are not forming views based on statements which could be misleading. Where transactions are of such a significant nature, the Authority should consider providing all of the due diligence information to Cabinet for consideration in camera, taking into account any commercial sensitivities which would preclude this being recorded in public documents.</p> <p data-bbox="174 1437 772 1638">The Authority should ensure that it complies with accounting requirements and its own policies in respect of obtaining suitable valuations for all assets during the financial year, most especially when assets are being reclassified, such as from Assets Under Construction to Operational, or from Operational to Investment Properties / Assets Held For Sale.</p>	<p data-bbox="802 275 889 304">Agreed</p> <p data-bbox="802 314 1395 486">The Council accepts the general intention of this recommendation – which we understand to be that Members should be provided with information that is factually correct and expert advice should be sought on complex transactions such as the sale and leaseback of OAS.</p> <p data-bbox="802 497 1365 580">A full, written Report was presented to Cabinet. Due diligence was undertaken by PWC on behalf of the Council and this was shared with KPMG.</p> <p data-bbox="802 590 1386 932">This was a complex transaction in which all parties were faced with difficulties in interpreting the fine detail of approaches used by valuers when valuing properties and the CIPFA Accounting Code of Practice. At the time, this matter was being considered under considerable pressure, time was short and the Council's financial position meant that the consequences of delay were considerable. It is accepted that the s.151 Officer at that time could have done more to communicate clearly with KPMG and discuss, in a more timely fashion, the proposed transaction.</p> <p data-bbox="802 942 1393 1052">The Council will, in future, discuss such issues with the external auditor in a timely manner and will give the external auditor time to review any such significant transactions.</p>

Key issues and recommendations (cont.)

#	Risk Issue & Recommendation	Management Response as at July 2019
20	<p>Risk Management</p> <p>At the time of our External Audit Interim Report 2017/18 we noted that there remains a significant risk to the organisation if a robust framework is not embedded at all levels as soon as possible. Work in this area should be made an immediate priority by Officers.</p> <p>The Authority currently faces a significant number of risks to its day to day operation, whether financial or operational. Many of these have already been highlighted in various external reports, including our previous external audit reports, the LGA Peer Review, and the Best Value Caller Report.</p> <p>As noted elsewhere in this ISA260, strong action plans should be put in place to manage or mitigate these risks.</p> <p>Recommendation</p> <p>The Authority should finalise and update its Corporate Risk Register and associated action plans as a matter of priority.</p> <p>The Authority also needs to ensure it is identifying new and emerging risks on a regular basis and assigning appropriate resources as required to mitigate these.</p> <p>The Authority should regularly review the updated Risk Management Policy and SORP, as well as associated policies to ensure they are detailed, integrated and consistent in approach providing staff with clear instructions, direction and guidance on how the Authority expects staff to support a culture of effective risk management.</p> <p>1 Roles, responsibilities and reporting lines in relation to risk management as well as the overall governance structure should be clearly defined and staff should be aware of the Authority’s approach to identification, assessment, management, monitoring and escalation of risk including information on risk appetite and horizon scanning.</p> <p>The Authority should ensure that risk management is supported by a comprehensive suite of policies and procedures relating to areas such as health and safety, complaints and concerns, information governance, business continuity etc.</p> <p>The Authority should ensure that staff throughout the organisation are made aware of the need for effective risk management, supported by training, communications and formal governance structures within the Authority.</p> <p>The Authority should in addition, look to gain assurance over risks on the Corporate Risk Register through regular deep dives to ascertain how robust the management of individual risks is, this could form part of the Audit Committee’s work programme during the year. The work programme for other committees should be informed by the Corporate Risk Register.</p>	<p>Agreed</p> <p>The Council's Leadership Team has reviewed the Council's risk register and reported this to the Audit Committee in March 2019. Further work is required and a workshop for the Leadership Team is due to take place in August 2019 to shape the improvements required.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
21	1	<p>Recording of annual leave</p> <p>We noted that there was not a sufficiently robust process in place for the authorisation and recording of annual leave.</p> <p>Risk</p> <p>As a result audit trails may not be available to evidence annual leave entitlement, annual leave taken, and annual leave remaining, for all members of staff.</p> <p>Recommendation</p> <p>The Authority should ensure it has a robust process in place for the authorisation and recording of annual leave, such that audit trails are available to evidence annual leave entitlement, annual leave taken, and annual leave remaining, for any member of staff.</p> <p>This will support business planning, as well as providing evidence for any exit packages which include an element of payment in lieu of leave.</p>	<p>Agreed</p> <p>The requesting, approval and recording of all annual leave is managed through our enterprise resource planning system ERP Gold. This system records the entitlement, leave taken, leave remaining for all staff. This has been in place since April 2018.</p> <p>The Authority has improved procedures in this area, however compliance remains an issue so will continue to be a focus.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
22	2	<p>Valuations</p> <p>Some of the Authority’s assets were not, as required, valued as of 31 March each year.</p> <p>Risk</p> <p>Asset values may not be up to date and accurate, and may then require further assessment as of this date, which may result in additional delays, audit adjustments, and costs to the Authority.</p> <p>Recommendation</p> <p>The Authority should review its approach to valuations, and strongly consider as suggested in our previous external audit reporting, to valuing its assets (which are required to be valued as of financial year end), as of 31 March each year.</p> <p>This will ensure the asset values are up to date and accurate, and prevent the need for further assessment as of this date, which may result in additional delays, audit adjustments, and costs to the Authority.</p>	<p>Agreed</p> <p>The Council currently has a revaluation cycle of 5 years, of which the last year of the cycle and the contract with the current valuer is 2019/20. Historically the Council values its assets on 1st April each year, with a market review as at 31st March to validate the materiality of the valuations of every asset class at year end. If there were any material movements identified, then the valuers are instructed to provide an additional valuation. This procedure has been in place since 2015 and is in line with the CIPFA CODE.</p> <p>This timeframe allows the Council to receive and review the asset valuations, resolve any queries, and complete the necessary accounting adjustments by the end of the calendar year. This prepares the Council for faster closedown, as it means that the valuations are available for audit early in their audit cycle.</p> <p>Agreed</p> <p>As the Council is currently in the final year of its revaluation cycle, the Council is currently reviewing its future revaluation dates and cycles in line with best practice, and the forthcoming local government reorganisation.</p>
23	2	<p>Working papers</p> <p>The working papers produced in support of the draft financial statements for audit purposes, as reported in previous years, were not of sufficient quality.</p> <p>Risk</p> <p>Poor quality working papers can lead to increasing the time taken to audit them, the number of audit queries and delays to the audit.</p> <p>Recommendation</p> <p>The Authority should undertake a rigorous review of the working papers produced for audit purposes, as reported in previous years.</p> <p>The Authority, including LGSS, should undertake a lessons learned from the audit to identify working papers which can be further strengthened and streamlined to become clearer and concise for audit purposes, thus reducing the time taken to audit them, and reducing the number of queries and delays arising from poor quality evidence provided to external audit.</p>	<p>Agreed</p> <p>The Council will conduct a review of audit working papers to strengthen the information that is supplied to external audit to minimise future audit queries, this will include learning from other LGSS authorities who are also audited by EY. Working paper reviewers will be reminded of the importance of a timely and accurate review. The NCC Finance Management Team will also collectively provide a targeted working paper review for additional assurance. In addition, an audit debrief session with KPMG has been requested for feedback on specific examples of working papers that need improving.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
24	2	<p>LGSS closedown Team</p> <p>The current capacity and capability of the LGSS closedown team in its current form to service the requirements of its multiple clients is not sufficient to produce quality accounts and reply to audit queries on a timely basis.</p> <p>Risk</p> <p>There is a risk of not producing its draft financial statements by the statutory deadline, and not dealing efficiently and effectively with external audit queries during the audit process.</p> <p>Recommendation</p> <p>The Authority should review the capacity and capability of the LGSS closedown team in its current form to service the requirements of its multiple clients in respect of not only producing its draft financial statements by the statutory deadline, but importantly to deal efficiently and effectively with external audit queries during the audit process.</p> <p>The lack of capacity, with a stretched team of minimal staff, can cause significant delays to the external audit process, incurring additional cost to the Authority. This could be mitigated by further investment in the team itself, providing resilience should individuals go on annual leave or off on sickness absence.</p>	<p>Agreed</p> <p>The Council recognises not only the structural flaw of a closure of accounts team shared with other councils who will all have competing demands at the same time of the year, but also the added complexity of producing the Statement of Accounts over recent years as NCC has been deemed a high risk audit, which has the impact of reducing materiality levels and increasing the level and detail of information required by external auditors. All LGSS Services, including the LGSS Closedown Team are currently being reviewed by all three constituent authorities of LGSS. It is anticipated a report will be presented to the LGSS Joint Committee in July 2019. Regardless of the outcome of the LGSS review, the Statement of Accounts will be completed with a clear week before submission to external audit to allow a multi layered review of working papers to provide the Council's S151 officer assurance that the Statement of Accounts are free from material errors and omissions. In addition the Finance Business Partner Team will be utilised to provide further resource for review and quality assurance processes.</p> <p>The accounts for 2018/19 will be produced using ERP Gold for the first time. The new financial system provides enhanced reporting functionality which means that the LGSS Closedown Team has been able to produce a report which extracts the entire trial balance and automatically populates a large number of the core statements and disclosure notes. It is expected that this will improve the accounts production process although the caveat remains in respect of the underlying quality of the entries and data in the financial system. However from a financial accounts production perspective this should build in improvements.</p>

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation	Management Response as at July 2019
25	3	<p>Quality review and checks</p> <p>With a stretched closedown team at minimal capacity, the external audit process can suffer due to lack of quality checks prior to working papers and audit responses being quality checked before being presented to external audit.</p> <p>Risk</p> <p>This lack of robust and systematic quality check by senior management of the various versions of the draft accounts and working papers sent for audit often increases the time spent due to the need for revised working papers, and the raising of further audit queries.</p> <p>Recommendation</p> <p>The Authority should ensure that it has in place a robust quality control process for all audit working papers and audit queries, and that evidence is signed off as accurate, sufficient and appropriate before being passed to external audit.</p> <p>As part of this process, in addition the Authority should clarify the relative roles and responsibilities of the LGSS closedown team and the Authority's own staff (S151 and Deputy s151), within the context of external audit.</p>	<p>Please refer to response to recommendation 24.</p>

Key issues and recommendations (cont.)

Risk Issue & Recommendation as at Interim Audit

Management Response as at July 2019

Intelligent Financial Reporting

We noted in our review of the Authority's financial reports to the Cabinet the following issues:

- the Authority's full financial position is obfuscated by integrating various one-off measures within its headline figures;
- reports are written without clarity or structure;
- there is no clear link between the budget monitoring process and the quarterly financial reports to Cabinet;
- the adequacy of cash and forecast cash flow requirements is not reported;
- the Authority's progress against its savings plan is not reported. Exceptions are not highlighted and there is no in-year commentary on savings that are not on track to be delivered; and
- the frequency of reporting to Cabinet is insufficient to help address the Authority's financial risks.

Risk

There is a risk that those charged with governance do not have sufficiently-appropriate information on which to make informed decisions. Clarity of reporting is also key to promoting transparency and accountability.

Recommendation

Intelligent financial reporting can be a significant factor in providing financial grip on the Authority's finances. Financial information presented to the Cabinet (and any other committees) should encompass both strategic information and operational performance. These should:

- be structured around an explicit set of strategic goals. These may take the form of key performance indicators (KPIs);
- show trends in performance in terms of finance and achievement of core service/business goals, quality of service, and satisfaction of service users;
- provide forecasts and anticipated future performance issues;
- encourage an external focus;
- provide an accurate and balanced picture of current and recent performance, including financial, regulatory, and service user perspectives;
- focus on the most important measures of performance and highlight exceptions;
- can be clearly linked to the Authority's monthly internal financial reporting process;
- be appropriately standardised in order to take account of known factors that affect outcomes, such as demographics; and
- enable comparisons with the performance of similar organisations. All information should:
 - be clearly and simply presented, including graphical and tabular overviews, as well as brief commentary;
 - be updated and presented in a timely manner, ideally every time the Cabinet meets (or once a month);
 - direct the Cabinet's attention to significant risks, issues and exceptions; and
 - provide a level of detail appropriate to the Cabinet's role.

The Council has significantly revised the format of its Finance Reports that are presented to Cabinet. The reports are now considered by Cabinet on a monthly basis, with the objective of providing stakeholders and citizens a suitably detailed financial summary of the Council's anticipated in-year financial position, risks, financial issues and opportunities.

The report has been developed incorporating feedback from external audit, the Council's new Management Team and S151 Officer, the Overview and Scrutiny Committee, and the Commissioners of the Council to ensure that the Council's financial position is clearly articulated and easily understood, through the better use of tables, graphs and appendices and a more suitable balance of financial and non-financial information to explain variances and risks.

In addition, where the Council needs to address significant in year budgetary pressures, there is a transparency in the development, and reporting of management actions required to mitigate these pressures, an example of this would be the reporting of the Council's Stabilisation Plan first published to October 2018 Cabinet, which was a set of comprehensive measures to support the Council in addressing its budget gap. The progress of the Stabilisation Plan was reported to Cabinet each month within the Monthly Finance Report.

The Leader of the Council and Portfolio Holder for Finance are briefed weekly on the Council's Financial position, while opposition Councillors (including the Chair of Overview and Scrutiny) are invited to a monthly finance briefing by the S151 Officer and the portfolio holder for Finance to discuss the finance reports due to be presented to the next Cabinet meeting.

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation as at Interim Audit	Management Response as at July 2019
27	1	<p>Clear BVI Action Plan to Address Identified Deficiencies</p> <p>The Best Value Inspection report identified a number of key issues which can and should be addressed by the Authority. These are improvement actions which can be taken prior to the reorganisation of the county's local government, and would provide any successor organisation(s) with a stronger starting point. We have not seen a detailed response to date (at the time of issuing our External Audit Plan 2017/18 in March 2018) which addresses the deficiencies identified within the report; instead, the focus has been on shaping and influencing successor organisation(s).</p> <p>Risk</p> <p>There is a risk that successor organisation(s) will inherit the Authority's current processes and procedures which have been deemed unsuitable by the Best Value Inspector.</p> <p>Recommendation</p> <p>There should be a commitment to continuous improvement; the current discussions and negotiations on the future of local government within the county should not prevent the Authority from addressing current deficiencies identified by the Best Value Inspector. The Authority should put together an action plan with key actions highlighted and individual actions allocated to the appropriate officers. This plan should have oversight by those charged with governance and reported on a periodic basis.</p>	<p>The Secretary of State intervened in Northamptonshire in March 2018. The Secretary of State issued a Direction and appointed two Commissioners with wide ranging powers over the Council's governance, scrutiny and financial management arrangements. Regular progress reports are submitted directly to the Secretary of State by the Commissioners.</p>

Key issues and recommendations (cont.)

Risk Issue & Recommendation as at Interim Audit

Management Response as at July 2019

Financial Control on GPC Cards

Our review over the GPC expenditure indicates a potential lack of financial rigour or control over GPC expenditure incurred (see further detail in appendix 3). Whilst not material in aggregate, the following spending habits of staff via GPCs is a matter of concern given the financial context in which the Authority currently operates, as well as the imposition of Section 114 controls: The repeated transactions on items which should have been procured via a contract or a framework agreement. This includes stationery, books, and cleaning products; The purchase of capital items, including computer software, furniture, and mobile phones; and The repeated purchase of groceries from high street stores.

We also identified transactions which may warrant further investigation.

Risk

Whilst the transactions themselves may not be fraudulent and there may be a genuine business/service need, the lack of controls on GPC expenditure mean that: the Authority is not achieving value for money; the Authority is exposed to the risk of fraud; and The GPCs may be a means to circumvent budgetary controls.

Recommendation

The Authority needs to ensure that robust financial controls are in place over GPC expenditure. Amongst the controls or measures we would expect:

- There should be a fundamental review over the types of expenditure and an assessment whether contracts are already in place for that particular expenditure. Staff should be required to requisition products via existing procurement contracts. Where no contracts exist, the Authority should begin to put in place framework contracts with one or more suppliers for repeated purchases.
- GPCs to purchase capital items should be on an exception basis.
- GPCs to purchase grocery items should also be on an exception basis. Staff should be challenged where these are habitual.
- GPCs on third party payment facilitators such as PayPal should be discouraged or prohibited as it obfuscates the true end supplier. This does not promote accountability.
- GPCs to purchase NCC services such as birth certificates should be reconsidered. The Authority should also consider if it is appropriately accounting for these as there is potential for overstating both income and expenditure; this is not an area which we have reviewed due to materiality.
- GPC expenditure should be reviewed on a regular basis. Whilst it may be impractical to review every single transaction, it is worth reiterating that per the Authority's own definition, GPCs are "an alternative method of payment for low value, one off payments, goods or services that need to be purchased quickly and other one off expenditure". The Authority thus needs to treat any expenditure on GPCs as exceptional and put appropriate review measures in place to reflect this position.
- All transactions should be clearly documented on the system (with sufficient notes against each line of expenditure) so that reviewers are provided with sufficient information to challenge or accept any reviewed expenditure. The Authority should also consider introducing the requirement for all staff incurring GPC expenditure to justify the appropriateness of each transaction.
- GPC expenditure and a summary of the reviews should be reported on a periodic basis to those charged with governance.
- There should be a periodic review of GPC holders. This list of authorised GPC holders should be kept to a minimum.

Internal audit work in 2018-19 did not identify any inappropriate spend incurred through GPCs. Directors receive and review monthly statements of all GPC spend. The Council will continue to ensure GPC's and limits applied are reviewed to ensure they are still appropriate. GPC expenditure will be subject to internal audit review within 2019/20 financial year.

28

2

Key issues and recommendations (cont.)

#	Risk	Issue & Recommendation as at Interim Audit	Management Response as at July 2019
29	2	<p>Interface Payments</p> <p>Our work identified that the list of individuals authorised to request payments via interface payments has not been kept updated. Since our work, retrospective approvals have been obtained from the various budget holders of transactions within our sample.</p> <p>Risk</p> <p>There is a risk that payments made via interface payments may not be appropriately authorised due to an outdated approvals list.</p> <p>Recommendation</p> <p>The Authority should update and maintain a list of authorised individuals.</p>	<p>Prior to the implementation of the Council's new ERP Gold system, all users of the manual spreadsheet interface loads were contacted to confirm:</p> <ul style="list-style-type: none"> • Purpose of spreadsheet and nature of payments. • Contact details of who would be completing the spreadsheet. • Contact details of who would be submitting the spreadsheet as approvers. <p>This review was completed for all Partners. All of the returned forms are saved within Accounts Payable and all the approver information is updated on the master AP control log.</p> <p>There is an additional control on the new ERP Gold spreadsheet which records the ID of the end user and time date stamp of when the spreadsheet was both completed and approved for complete audit purposes.</p>

Appendix 2:

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2016/17 and ISA 260 Report 2016/17 and outstanding recommendations from previous audit years and re-iterates any recommendations still outstanding.

Priority	
High	3
Medium	14
Low	2
TOTAL	19

No.	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
1	1	<p>Streamlining the accounts production and closedown process</p> <p><i>Risk</i></p> <p>The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements by 31 May 2018 for the financial year ending 31 March 2018. In preparation for this tighter timescale, the Authority has agreed to streamline its approach to the accounts production process.</p> <p>Key to this is the new LGSS Accounts Production team, which also oversee the process for Cambridgeshire County Council, Northampton Borough Council, and Milton Keynes Council.</p> <p>As part of this, we issued our required documents list in December 2016. We have also followed this up and have agreed with Management that we will carry out testing over the Authority's capital additions and disposals given the focus on capital flexibilities.</p> <p>Nonetheless, we wish to highlight the following:</p>	<p>With the Integrated Closedown team only fully coming into existence in December 2016 following the Finance Directorate restructure, time has been limited to fully undertake a review and change processes and approach to the closedown arrangements as the team were straight in to the planning and preparation phase for the 2016/17 accounts.</p> <p>However there are some areas of progress where convergence and knowledge sharing has been achieved such as the joint review of new Code requirements and accounting policy changes, sharing formats and approach to the new CIES and EFA statements and developing a consistent format for the Narrative Report across the Councils.</p> <p>It should also be noted that the capital closure is ahead of timetable compared to previous years.</p> <p>The recommendation is however agreed as this is a key piece of work that needs to happen. The difficulty is in doing this alongside the actual closure of the 2016/17 accounts as it is the same staff that would need to be involved in any kind of review.</p>	<p>The fact that a significant number of audit areas had progressed at the interim audit, coupled with the fact that the 2017/18 draft accounts being presented for audit by the earlier 31 May deadline, demonstrates the work that was undertaken by the Closedown team in revising the accounts closure processes so as to achieve the earlier deadlines.</p> <p>Since the recommendation was made, the Authority has further developed the Accounts production process using the new ERP Gold system.</p> <p>The system has a much enhanced reporting functionality, as a result the Closedown team has been able to develop a report from the trial balance to create the core financial statements and a significant number of the disclosure notes directly from the trial balance.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
1	1	<p>Risk</p> <ul style="list-style-type: none"> We note that the Authority has positively responded and provided the majority of items requested, with the exception of Journals. As a result we were not able to test Journals as planned at interim, and have agreed with Management that this will now be deferred to the year-end audit. We were unable to carry out testing of capital additions and disposals as initially agreed with Management. <p>Both of these issues have had knock-on effects on our agreed audit plan. Work will now be performed during the final audit which will place additional pressure on both the Authority and the audit team.</p> <p>The delays and additional work now required during the year-end audit will have an associated cost to the Authority. This will be discussed and agreed with management and the Audit Committee on the completion of our audit.</p> <p>Recommendation</p> <p>The earlier closedown process requires a fundamental redesign of the Authority's financial reporting process throughout the year.</p> <p>Many of the transactions associated with the closedown process will need to become a critical part of a quarterly or even monthly process, such as capital transactions and accounting for accruals.</p> <p>The Authority will need a fundamental 'root and branch' review of its approach to identify these critical transactions and embed these in its quarterly or monthly closedown process.</p>	<p>An initial workshop is scheduled in June with representatives across all the authorities that the Integrated Closedown team support to pull together options and best practice to achieve earlier closure. The move to undertaking capital transactions during the year will be part of this.</p> <p>What would also be helpful to management is the way in which KPMG are planning to change their audit approach to support the local authority to achieve the earlier closure.</p> <p>In order to meet the requirement to produce a draft set of accounts by the 31st May, a great deal of preparation has gone in to make sure that the processes that underpin the production of the draft accounts are brought forward and/or streamlined.</p> <p>The result of this has been a vastly improved timetable, with the majority of actions taking place before the 31st March, as a result of focussing on when a task can be achieved rather than when the latest it can be achieved. This has removed a significant number of tasks of the critical path, improving resilience and also allows us to identify what the key tasks are.</p> <p>We have also committed to learn the lessons of previous closedowns, especially in relation to ensuring the timetable doesn't slip, with key deadlines placed at the end of the working week to ensure they are easy to remember.</p> <p>Whilst we can be confident that we have taken the necessary steps to achieve the reduced timescales, we will be only able to sufficiently evidence that we have made the necessary improvements when we provide the accounts to the auditors by the 31st May (having undergone rigorous QA).</p>	<p>This improves the audit trail, enables the core statements and tables to the accounts to be produced efficiently, and releases officer time to concentrate on the quality of the underlying data, account coding and general review of the statements much earlier in the process.</p> <p>The benefits of this approach are still to be fully realised. This process and the underlying closedown tasks will be kept under review.</p> <p>For 2018/19, the Council is currently in discussion with EY on their full audit requirements, so as to ensure that we meet the auditors expectations. The Integrated Closedown team is working with EY on sets of accounts for other authorities and is already working on the data and information which will be used to support the NCC audit.</p> <p>Comments about the availability of documentation on the use of capital flexibilities are set out in the Council's response to this specific recommendation in the final 2017/18 ISA 260 report.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
2	1	<p>Governance of 'Next Generation Council' federated vehicles</p> <p>Risk</p> <p>The Board of First for Wellbeing ('FfWB') has approved its governance structure in February 2017 in relation to audit matters following input from LGSS Internal Audit and KPMG.</p> <p>The confirmation of FfWB's tax position with HMRC is still outstanding. We are aware that the Authority has initiated discussion in relation to VAT and corporation tax.</p> <p>Whilst the Authority has implemented our 2015/16 recommendation over the governance and review processes for producing the Financial Statements, we have still identified deficiencies in the overall governance arrangements. Specifically, we note that the Authority has not: considered the full Board and committee structure; confirmed the company's tax position with HMRC; and considered the governance of the NCC Group.</p> <p>This list is not exhaustive and is driven by the requirement that the Authority should separate its role as commissioner and the principal shareholder of the company. This consideration needs to be embedded within the 'Next Generation Council' (NGC) process instead of a reactive approach that the Authority currently adopts.</p> <p>Going forwards, Northamptonshire Adult Social Services Limited ('NASS') is due to commence trading from September 2017 with a forecast turnover of £213 million. This is significantly larger than the Authority's earlier vehicles. The Authority should ensure that robust governance arrangements are in place that incorporate the requirements of FfWB and the Group.</p> <p>Recommendation</p> <p>The Authority needs to ensure that robust governance arrangements are in place for the 'Next Generation Council' vehicles prior to their set up. These arrangements should reflect the Authority's role as commissioner but also as principal shareholder, in particular where the vehicles are earning private income, increasing the risk to the Authority. Specific areas which the Authority should also consider have been listed above.</p> <p>In the context of setting up a new trading company, the Authority should ensure it has considered all elements of the vehicle's governance framework during the set up process to ensure the company has robust governance arrangements in place when it commences trading.</p>	<p>Appropriate governance arrangements have been in place since the formation of First for Wellbeing with NCC Group having an appropriate commissioning structure. In respect of NASS the governance arrangements have been in place and mirror those of First for Wellbeing, however these will be subject to review once NASS is operational.</p> <p>In addition the response to the First for Wellbeing tax clearances is expectedly imminently after correspondence with and chasing of HMRC. The Authority has learnt from the experience of First for Wellbeing and will be requesting any required tax clearance from HMRC prior to NASS becoming operational. This work is in progress.</p> <p>In the current financial year, there have been no further creating of external vehicles to support NCC service delivery. Indeed, we have the prospect of NTL/OCS coming back in house, which is a signal that the Next Generation Model is on hold for the moment.</p> <p>Therefore, we do not anticipate the need to create additional entities for the time being</p> <p>Responsible Officer</p> <p>NCC CFO - Overall governance arrangements Head of Integrated Finance Services - HMRC tax clearance</p> <p>Implementation Deadline</p> <p>November 2017 - Overall governance arrangements August 2017 - HMRC tax clearance</p>	<p>The Authority has returned the services provided by both Olympus Care Services Limited and First for Wellbeing CIC back into the Authority with the effect of 1 April 2018 and 1 September 2018 respectively. Due to trading activity by First for Wellbeing CIC within the financial year 2018/19 the Authority has engaged an audit firm to provide an external year-end audit as at 31 March 2019, this will be concluded shortly.</p> <p>The Authority intends to conclude the liquidation of both Companies in early 2019/20 using registered firms. In addition to this, the Authority has confirmed that it will be creating a new Children's Trust to deliver children services throughout the county, which will be subject to robust governance arrangements.</p> <p>The Council is currently in the early planning stages for this supported by the Children's Service Commissioner. Previously there have been three limited companies by guarantee setup to deliver a Children's Trust (with no trading activity) and a Charity (with minimal donations) in light of the Council's intention to now proceed with Trust arrangement these companies are under review.</p> <p>There has also been a company limited by guarantee for a Chester Farm Trust the use of this company is also currently under review, as there has been no trading activity.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
3	1	<p>Retrospective Purchase Orders</p> <p>Risk - 1</p> <p>We used Data & Analytics techniques to test all transactions within the Authority's accounts payable balance up to Month 9.</p> <p>We identified 7,677 instances (21% by number) of retrospective purchase orders with an estimated value of £157 million.</p> <p>This compares to 10,614 instances (16% by number) for the full year in 2015/16, with an estimated value of £137 million. Retrospective orders were identified where the invoice date predates the purchase order date.</p> <p>Recommendation</p> <p>The Authority should carry out a detailed analysis of all instances of retrospective purchase orders.</p> <p>The analysis should help the Authority understand the cause and identify key areas/departments where the use of retrospective purchase orders is most common.</p> <p>This exercise will also help the Authority identify key control or process weakness.</p>	<p>A review of retrospective purchase orders will be undertaken to identify the cause and the service areas where this may be prevalent to understand why it is happening and whether the issue is one of compliance or the fact that existing processes may not be appropriate for certain services.</p> <p>We have undertaken analysis to identify areas where non compliance and to understand reasons behind non compliance. This has often led to identifying genuine reasons behind non compliance, and therefore we have focussed on areas where the behaviour is not as expected. This mainly relates to POs that are raised late due to the final invoice amount not be known until received, and/or the correct procedure is not known.</p> <p>Utilising the substantial reporting improvements available with ERP Gold, we will be able to target non-compliance as it happens rather than reactively, although the process and authorisations/reviews around this are still be determined.</p> <p>For clarification, the majority of invoices received are only paid after a requisition has been raised and then approved, generating the PO number. Therefore, nothing gets paid without being authorised.</p> <p>Responsible Officer</p> <p>Head of Financial Transactions</p> <p>Implementation Deadline</p> <p>31/3/2018</p>	<p>An internal audit briefing was performed in November 2018, where a report outlined the retrospective orders. This was broken down into service areas and shared with NLT for review. The review of retrospective orders is an on-going process, between April 18 and November 18, there has been a significant reduction in retrospective orders, and the departments with the highest volumes have been identified to enable further management actions to reduce these further, the recent introduction of social care service specific expenditure panels is expected to significantly reduce retrospective orders further.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
3	1	<p>Retrospective Purchase Orders</p> <p>Risk - 2</p> <p>Retrospective purchase orders indicate that orders may not have been approved appropriately prior to the Authority purchasing or receiving a good or service. Whilst these orders were approved retrospectively and unlikely to give rise to a material misstatement, the frequency of retrospective purchase orders indicates a significant weakness in the Authority's purchasing process.</p> <p>The retrospective approval of these purchases does not fully mitigate the risks that:</p> <ul style="list-style-type: none"> • goods or services are purchased without prior authorisation from a budget holder; • goods or services are sourced from suppliers outside of the Authority's approved supplier framework; • value for money may not be achieved through procurement; and • fraud or error occurs, for example, through collusion with suppliers, the use of fraudulent suppliers, or the inflation of sale prices. <p>Recommendation</p> <p>The Authority should seek to provide appropriate training to raise awareness of its own purchasing policy amongst staff.</p> <p>Where retrospective purchase orders are raised, purchasers and the relevant budget holder should be challenged and required to justify the use of retrospective purchase orders.</p> <p>Instances of retrospective purchase orders should be monitored as a Key Performance Indicator (KPI) and budget holders who persistently oversee retrospective purchase orders should be held to account.</p> <p>Senior management should report this KPI to the Audit Committee on a regular basis.</p>	<p>The Authority will communicate the requirements of the purchasing policy and process to budget holders through channels such as the covering note that sets out the monthly monitoring deadlines for budget holders and wider channels such as Informer.</p> <p>Responsible Officer</p> <p>Head of Financial Transactions</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	As above.

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
3	1	<p>Retrospective Purchase Orders</p> <p>Risk - 3</p> <p>We note that the Authority's Internal Audit service awarded a 'Substantial' level of assurance to the purchase ordering process within its Purchase to Pay – NCC report (dated April 2017).</p> <p>Recommendation</p> <p>Management should work with LGSS Internal Audit to identify appropriate testing strategies to provide the assurance level which the Authority needs.</p>	<p>The Authority will consider reporting on the retrospective orders as recommended and management will liaise with Internal Audit to identify the necessary testing strategies required.</p> <p>Responsible Officer</p> <p>Head of Financial Transactions</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>As above.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
4	2	<p>Review of actuarial assumptions</p> <p>Risk</p> <p>The Authority is a member of the Northamptonshire Pension Fund which is required to undergo a full valuation every three years. As part of the full valuation process in 2016/17, the Authority is required to submit information about its members, as well as review and challenge the actuarial assumptions. These are both financial and non-financial assumptions.</p> <p>The Authority's Actuary has stated in its February 2017 briefing note:</p> <p>"We therefore strongly recommend that you consider the suitability of the default assumptions to your specific organisation".</p> <p>Assumptions used will impact the balance sheet and the following year's CIES.</p> <p>The Authority is unable to demonstrate a review of the assumptions, nor it is able to demonstrate the acceptance of the default actuarial assumptions used as part of the valuation process.</p> <p>Recommendation</p> <p>The Authority should evidence the review of all assumptions used by the Actuary to ensure relevance to the organisation.</p> <p>Where appropriate, the Authority should challenge these assumptions</p>	<p>The recommendation is noted and it should be clear that the process NCC has followed to instruct the Actuary in 2016/17 is the same as in previous years. In line with the majority of local authorities, the decision has been taken to use the assumptions provided by the Actuary.</p> <p>There are a number of reason for this, the main ones which have been outlined below:</p> <ul style="list-style-type: none"> • Lack of in-house expertise to be able to challenge assumptions. • NCC assumptions are unlikely to vary from other similar local authorities. • Cost of changing assumptions. Whiles the adoption of actuarial assumptions could have gone through a more formal process, it is unlikely that not doing so constitute a significant risk. <p>However we will factor in a more formal sign off of the assumptions used in future years.</p> <p>The Integrated Closedown team will ensure that there are formal sign off of these assumptions used as soon as it is received from the Actuary.</p> <p>Responsible Officer</p> <p>Pensions Team and S151 Officer</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>Agreed.</p> <p>The Section 151 Officer will take an active part in agreeing the actuarial assumptions used in the valuation for purposes of the financial statements.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
5	2	<p>Capital accruals process</p> <p>Risk</p> <p>We identified three invoices in relation to capital works for 2016/17 which had not been accrued. Although the aggregate is below materiality, this highlights that the cut-off process was not sufficiently robust to identify all capital invoices received before the year end. This may result in an understatement of the Authority's assets under construction.</p> <p>Recommendation</p> <p>The Authority should examine its capital accruals process and further improve or implement key controls which would identify capital accruals.</p>	<p>In order to facilitate the quicker closedown of accounts and utilise the additional functionality within capital reporting available with the implementation of the ERP gold system later this year, there will be changes in how the capital accounting processes operate, in line with best practice.</p> <p>As a result of the issues identified in the audit, ensuring that year end accruals are identified and processed in a timely manner will be prioritised within this, with budget managers being made aware of their responsibilities in this area.</p> <p>Project managers to be provided with specialist guidance notes to ensure full compliance in this area.</p> <p>Responsible Officer</p> <p>Head of Integrated Finance and S151 Officer</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>Capital budget managers are provided with a financial year-end timetable and given advice on all aspects of capital closedown through the capital finance business partner team. The accruals process for capital is consistent with the procedure for revenue accruals. Automatic accruals are raised as purchases on ERP Gold, and any manual accruals raised are reviewed by the finance business partner team.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
6	2	<p>Accountability and transparency in relation to the flexible use of capital receipts</p> <p>Risk</p> <p>The DCLG guidance on the flexible use of capital receipts has the following requirements of Authorities in respect of their accountability and transparency in respect of the flexible use of capital receipts.</p> <p>Creating a flexible use of capital receipts strategy (this can form part of their MTFP or efficiency plan) that is shared with the full council prior to the start of the financial year.</p> <p>This strategy should include the following:</p> <ul style="list-style-type: none"> • Individual projects funded through capital receipts; • Expected savings of each project; • Impact on the Authority's Prudential Indicators; and • Circumstances in which the strategy can be revised. <p>The 2017/18 strategy should include the 2016/17 projects and commentary on the achievement of planned savings.</p> <p>Our testing has noted that the Authority does not currently have a strategy in relation to the flexible use of capital receipts. In addition this is not reflected within the Authority's MTFP.</p> <p>We note that the flexible use of capital receipts has been included within the Authority's efficiency plan; however, this does not meet the guidance above and was not shared with Full Council until November 2016.</p> <p>Based on our findings above, the Authority does not meet the accountability and transparency requirements as set out within the DCLG guidance in relation to the flexible use of capital receipts.</p> <p>Recommendation</p> <p>The Authority should adopt the requirements stipulated within the DCLG guidelines. This allows the Authority to demonstrate accountability and transparency in relation to the flexible use of capital receipts.</p>	<p>The strategy for the flexible use of capital receipts existed in the MTFP for the period 2016/17 through to 2020/21 and was transparent in the business planning numbers presented to Council.</p> <p>The comments are noted however and the Authority will review its approach in the context of the DCLG guidelines and make more explicit reference to the strategy being adopted in the MTFP that will be presented for approval to Council in February 2018.</p> <p>We will provide an update at interim with regards to our progress in this area. As a result, we will be able to modify/provide additional evidence in good time for the final audit.</p> <p>Responsible Officer</p> <p>S151 Officer</p> <p>Implementation Deadline</p> <p>28/02/2018</p>	<p>A full response to this issue has been provided as part of the Council's reply to KPMG's 2017/18 full audit ISA recommendations.</p> <p>Please see response to recommendation 1 in appendix one.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
7	2	<p>Firefleet fixed asset register</p> <p>Risk</p> <p>With regards to Fire Service Property, Plant and Equipment the Authority relies upon the Fire Service to provide timely disposal information.</p> <p>We identified that a full reconciliation between the fire fleet register and the Authority's fixed asset register did not take place, resulting in a delay in identifying asset disposals which took place in 2014 to 2016.</p> <p>There is a risk that not all disposals will be identified and accurately reflected within the Authority's fixed asset register, resulting in an incorrect asset balance.</p> <p>Recommendation</p> <p>The Authority should liaise with the Fire Service to implement a regular reconciliation process between the fire fleet's and the Authority's fixed asset registers. This is also key in light of a tighter closedown period going forwards.</p>	<p>Agreed. This is a historical issue that has since been resolved</p> <p>Responsible Officer</p> <p>Integrated Closedown Team and the Business Partner Capital Accountants</p> <p>Implementation Deadline</p> <p>Completed</p>	<p>As part of the transfer of the Fire Service to the Office of the Police and Fire Crime Commissioner in January 2019, work was done to verify and reconcile fixed assets in order to populate the Schedules attached to the Property Transfer Scheme and to create a separate opening balance sheet for the new entity.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
8	2	<p>Narrative report</p> <p>Risk</p> <p>The Authority is required to produce a Narrative Report to accompany the financial statements, as first introduced by the Accounts and Audit Regulations 2015 in 2015/16.</p> <p>The Code has based its guidelines on the Financial Reporting Council's Guidance on the Strategic Report issued in June 2014.</p> <p>The Authority's Narrative Report does not fully align to Code requirements and the FRC's guidance, in particular requirements in relation to the Authority's Key Performance Indicators (KPIs).</p> <p>Recommendation</p> <p>The Authority should align its Narrative Report to the requirements of the Code and the FRC's guidance to ensure full compliance. KPIs disclosed should be evidenced, including any relevant calculations.</p>	<p>The Narrative Report is a comprehensive review of the financial and non financial performance of the Authority during the financial year. It is currently 12 pages long, and in line with the spirit to streamline the accounts, the Authority will be seeking to reduce rather than increase the length of the Narrative Statement. The Narrative Statement does include links to performance information, which is already available and published quarterly, and we have included a short summary in the Narrative Statement itself in response to KPMG's comments. The Authority will review the Narrative Statement further as part of the 2017/18 accounts which is an annual exercise that the Authority already undertakes.</p> <p>The Integrated Closedown team has prepared a standard form Narrative Statement template for all LGSS authorities to use to ensure compliance with the CIPFA Code.</p> <p>This will be circulated in February to the S151 Officers and their Deputies to begin preparing the Narrative Statements well ahead of the year end. This template has been provided to external audit for their review and comments to ensure that the Narrative Statement included within the Statement of Accounts provides an easy to read summary of the authorities performance in the financial year, and is also compliant with the relevant accounting standards.</p>	<p>A Narrative Report has been completed as part of 2017/18 Statement of Accounts which provides a concise overview of the Council's Strategy, and priority objectives and its resulting financial performance (revenue and capital) in delivering those objectives.</p> <p>This report will be continued and enhanced where possible for future years' audits.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
9	2	<p>Preparation of audit working papers and responses to audit queries</p> <p>Risk</p> <p>Our Accounts Audit Protocol, issued in February 2016 and discussed with the Group Accountant -Closedown, sets out our working paper requirements for the audit. As part of the Authority's pursuit for a 'faster close' of the accounts and audit process, we agreed to start our audit on 20 June 2016.</p> <p>The full set of working papers was not available until 4 July 2016, causing an initial delay. Additionally, some working papers were missing and had to subsequently be requested again.</p> <p>Our requests for further evidence, such as invoices for sample testing, have had significant delays up to six weeks.</p> <p>Recommendation</p> <p>The Authority should review its closedown process for 2016/17 and carefully consider any stretch targets for completion of working papers.</p> <p>The Authority should review the capacity on the Closedown team to meet such targets considering the Finance team's workload.</p>	<p>It is pleasing to have the improvements in working papers and responses in the main acknowledged by KPMG. The areas for improvement highlighted are noted and the Integrated Closedown team will work with these specific areas of the business to make the required improvements for the 2017/18 accounts.</p> <p>Work is in progress to achieve this. The Integrated Closedown team has set up specific task force meetings with key areas of the business such as AP / AR, payroll, systems and so on. These meetings will be used to ensure closedown activities are on track, the teams are aware of the deadlines and interdependencies and the requirements of working papers fully understood.</p> <p>Responsible Officer</p> <p>Head of Integrated Finance Services</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>For 2018/19 we will be discussing in full the audit requirements that the new auditor EY expect, to ensure that the Council meets the auditors expectations. The Integrated Closedown team is working with EY on other sets of accounts and is already working on preparing working papers to meet the audit requirements and NCC audit requirements. This includes ensuring that areas that can be tested across all authorities using ERP Gold are only done once, for example walk through testing and agreeing data analytics scripts. This has been done when working with EY on other audits.</p> <p>The comments in respect of the quality and completeness of working papers are noted. The approach that will be adopted with EY is to use their audit portal so as to ensure that all required information is provided and can be tracked. This is proving a very useful tool on other audits that are supported by the Integrated Closedown team and will be beneficial to the audit process for future years.</p> <p>It is agreed that there have been times when responses have not been quick enough. Part of this will be due to the length of time the audit has been open meaning that audit requests have had to be dealt with by many parts of the organisation outside of the normal closedown cycle. Ultimately this has in some instances created capacity issue which has been the case for the Integrated Closedown team in particular.</p> <p>Nevertheless this is clearly an area for improvement and Heads of Service and team managers will be expected to ensure their teams are responding to audit queries promptly. Improved processes for tracking audit queries will also be introduced with early escalation to the S151 Officer where requests appear to be delayed.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
10	2	<p>Service organisation reliance</p> <p>Risk</p> <p>The Authority relies upon service organisations for the operation of controls over key systems, including IT services and payroll services (schools).</p> <p>The Authority has not received a report on the effectiveness of the controls in place for either service organisation.</p> <p>Recommendation</p> <p>The Authority should ensure that the report commissioned for 2016/17 is received in a timely manner, and fulfils the criteria required to provide appropriate assurance.</p> <p>The Authority should request service organisation reports for payroll providers (Strictly Ed and EDM) to ensure adequate assurance over key controls are received.</p>	<p>The ISAE 3402 requirements will be followed up with the business area ahead of the 2017/18 audit in particular within the context of the new ERP Gold solution being implemented.</p> <p>In terms of the schools external payroll assurances, reports and clarifications were requested from the payroll providers at the start of the year and have been followed up during the 2016/17 audit.</p> <p>To date the external payroll companies have not responded and the Authority is continuing to pursue these assurance reports.</p> <p>Completed for Schools, as assurance statements for all providers has been received (January 18). Working with External Audit to understand their requirement with IT.</p> <p>Responsible Officer</p> <p>Head of Business Systems - IT ISAE 3402</p> <p>Head of Integrated Finance Services - Schools external payroll assurance</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>Fujitsu as the technical hosting provider of the Oracle ERP system provided the independently produced ISAE 3402 report for 2016/17 which was the last period required under the contract expiring in November 2017.</p> <p>The standard of the report was not queried in the previous years it was produced, and the independent organisation confirmed that it was the most up to date report format. Considerable effort was provided to facilitate KPMG's direct 'General IT Controls (GITC)' testing as part of the audit to provide additional assurance.</p> <p>That being said, the Council accepts the recommendation and work is underway to determine the most effective and efficient way in which the recommendation can be implemented.</p> <p>This work will be completed by 30 September 2019 in readiness for the 2018/19 audit.</p> <p>The Council will also discuss the audit requirements for schools payroll providers with the new auditor as part of the 2018/19 accounts and audit.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
11	2	<p>Governance arrangements for exiting staff</p> <p>Risk</p> <p>On 31 July 2015 the Authority's Chief Fire Officer left the Authority through redundancy. As part of the redundancy package a 'settlement agreement' was in place and a redundancy payment made in line with the agreement.</p> <p>The redundancy was part of a Fire department restructure, reducing three posts to one post.</p> <p>We reviewed the settlement agreement and supporting calculations. We did not identify any issues that would impact the financial statements and the calculation was correctly performed. However, the restructure of the three positions and the redundancy payment and agreement did not go through an approving Committee or to Members.</p> <p>Recommendation</p> <p>The Authority should ensure that proposed restructures of staffing are duly and fully approved by Members or the most relevant Committee.</p> <p>The Authority should obtain approval for settlement agreements that have a value for money implication.</p> <p>This approval should be at Committee level to aid transparency of the arrangements.</p>	<p>As per the Authority's response to last year management note that during the audit there were no adverse value for money findings in relation to any settlement agreements made by the Council during the year. NCC has delegated responsibility to the Chief Executive and Chief Officers for staff restructuring, which is the approach that is followed.</p> <p>The recommendation from last year was noted and NCC committed to include communication with the relevant Portfolio Holder in any future settlement agreements, which was done.</p> <p>Responsible Officer</p> <p>Director of HR</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>A full response to this issue has been provided as part of the Council's reply to KPMG's 2017/18 full audit ISA recommendations.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
12	2	<p>Design and operation of payroll controls</p> <p>Risk</p> <p>Our work on the Authority's payroll controls identified that there are weaknesses or improvement points:</p> <ul style="list-style-type: none"> • Starters, leavers, and amendments: We verified these payroll changes are provided by managers or team leaders and added to the Oracle by a payroll team member. A secondary payroll review for accuracy is evidenced manually through text box added to the electronic form. However, review approvals are not linked to a user account, and it is therefore possible to bypass this review step. This also exposes the Authority to the risk that data is added to the system is not complete or accurate. • Reconciliations: We tested the December 2016 payroll reconciliation. We found that the reconciliation had not been fully completed due to outstanding items marked as 'needs further investigation'. We note that there are outstanding items dating to March 2015. Without an appropriate reconciliation in place there is a risk the payroll costs recognised in the General Ledger do not match the amounts on the payroll system. <p>Recommendation</p> <p>The Authority should critically assess its process for reviewing starters, leavers, and amendments input to Oracle. The electronic approval process should ideally be linked to user accounts to ensure that appropriate authorisation is obtained prior to changes to payroll data in relation to starters, leavers, and amendments.</p> <p>The Authority should fully reconcile its payroll ledger to the general ledger. The Authority should take a view on these older reconciling items and either attempt to reconcile these items or write them off.</p>	<p>Starter, leavers and amendments: The new starters checking process does include an electronic stamp of user's name and date/time that record has been checked. We will continue to monitor all checking processes to ensure that process is followed in all cases. Currently all new starters are 100% checked, and further checking is then made by the Team Leaders for random selections to ensure that the correct process and checks are taking place.</p> <p>Reconciliations: The outstanding reconciliations are being looked into and improving processes to ensure that any outstanding items are resolved straight away.</p> <p>Responsible Officer</p> <p>Head of Payroll and HR Transactions</p> <p>Implementation Deadline</p> <p>Immediate</p>	<p>There has been a significant piece of work to ensure that all suspense and control account reconciliations are up to date, this work has progressed well, with material legacy issues addressed, payroll control accounts are the final area of review and work is on going.</p> <p>Moving forward, officers responsible for reconciliations will now ensure accounts are reconciled on a monthly basis, with unreconciled items proactively addressed, progress will be reviewed by the S151 Officer.</p> <p>The starter, leavers and amendments issue is incorrect. This was not in relation to data from the Payroll System to the Ledger, but was about an ID stamp on a PDF in relation to checking of new starters etc.</p> <p>Checking at that point was 100%, but has now been reduced in line with recommendations from Internal Audit with accuracy still remaining at over 99% in ERP Gold.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
13	2	<p>Operation of budgetary monitoring submissions control</p> <p>Risk</p> <p>In the prior year, we raised a recommendation that the Authority should ensure that managers are submitting budget workbooks monthly. We are aware that this is a matter under focus, and the Authority has reduced the number of budget holders to help address this point. We reviewed the submissions throughout the year and have found the following submission rates of 68% by number of budget books, and 87% by budget value.</p> <p>Based on the submission rates, we do not have assurance that information used for budgetary monitoring is complete. There is a risk that information is not available to management, Directors, or members to make informed decisions, and that budgetary monitoring is not carried out in a timely manner.</p> <p>Recommendation</p> <p>The Authority should ensure that managers are submitting budget workbooks monthly. Follow-up action should be taken where deadlines are missed. This will ensure that management, Directors and members are receiving and reviewing budgetary information that is comprehensive and accurate.</p>	<p>There is some important context that needs to accompany the KPMG analysis undertaken. Firstly there was a significant level of budget restructure during the months July through to September which would skew the figures, and therefore the return data from September onwards was more representative of the monthly trend. The return rate did increase significantly over the last few months of the financial year. Also the CP system does not differentiate between budget managers that have reviewed their budget position but not fully submitted. As a result lots of work to support budget managers has been undertaken where the benefits will be seen in 2017/18. This includes:</p> <ul style="list-style-type: none"> • CIPFA budget manager training • process improvements applied from September such as the follow up emails for non-returns • Rationalisation and senior management review of all budget managers • Accountability letters sent to every budget manager • Zero tolerance culture for compliance of CP returns from NCC group • Stronger grip and control of delivery of budget savings from each service • Regular performance boards to support and challenge services budget delivery from FD and CEO. 	<p>Finance Business Partners play a critical support function for the Council's Budget Managers, providing financial training, support and advice to enable robust financial management processes. The Council operates a self service model of budget management and it is important to recognise the complexity inherent in the management of resources in some service areas and the difficult decisions and judgements that have to be made by some service managers, and as such the high spending council departments have in place additional controls.</p> <p>The Northamptonshire Adult Social Service has instigated detailed weekly tracking of all spend authorised and committed by budget managers and this is reviewed each week so as to understand any trends, pressures or anomalies. Panels for expenditure approval on Adults Services are also now in place and tracked in terms of the spending approved, delayed and rejected spend. Children's Services have initiated placement panels that are considering carefully the need for placements to be made and to make appropriate changes to existing placements. The panels are treading the fine line between balancing the interests of the most vulnerable children and young people with managing the resources available to meet the needs of these children and young people and the wider cohort of children and young people in Northamptonshire for whom services are provided. Since the introduction of ERP Gold the reporting functionality has not been available to corporately measure the number of budget returns that have been returned, this report is currently still in development, however each Finance Business Partner team review every budget book as part of the preparation of the monthly monitoring process and provide support and challenge to the respective service area on finalising the monthly estimates, which is ultimately reviewed by the Service Management team and signed off by the Service Director.</p> <p>Working together, finance staff, operational managers and performance staff have developed monitoring processes that take account of the flow of clients through services and are not restricted to monitoring financial information on spending which necessarily occurs after the important decisions on service allocation have already been made and commitments to future spend entered in to. Visits have been made to other authorities to adopt and build on best practice from elsewhere. This will help NCC to avoid situations arising where unpredicted multi-million pound swings in budget monitoring occur and have to be explained after the event.</p> <p>Place has made considerable strides forward both with financial projections and with a change in culture to one of greater openness and transparency. Demand-led budgets are monitored closely, for example, winter service expenditure is now monitored on a fortnightly basis.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
14	2	<p>General IT Controls</p> <p>Risk</p> <p>We tested the Authority’s general IT controls as part of our reliance on Oracle, which runs the Authority’s general ledger system. We found the following issues:</p> <ul style="list-style-type: none"> • individuals who have left the Authority have accounts currently active on Oracle; • in our sample testing, system access was still granted for one user previously flagged for access revocation; and • the Authority’s password policy is not enforced on Oracle. <p>The findings above potentially expose the Authority to fraudulent IT activity.</p> <p>Recommendation</p> <p>The Authority should ensure compliance with its IT policy. Revocation of access for both leavers and users marked for access removal should be actioned immediately.</p>	<p>The Authority does have IT policies and existing processes that determine access and revocation requirements.</p> <p>However the instances identified from the audit will be reviewed.</p> <p>In addition the access requirements and policies under the Authority’s new ERP Gold system have been reviewed to ensure such processes are automated as much as possible.</p> <p>The responsibility for the access rights to ERP Gold is also being transferred from IT to the Financial Systems team.</p> <p>Responsible Officer</p> <p>Head of Business Systems and Change</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>Access to the Council’s current ERP Gold system is driven by the position in the HR establishment to which the user is assigned.</p> <p>This means that the user loses all access roles once their employment assignment has been end-dated.</p> <p>This removes the scenario identified by external audit.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
15	2	<p>Public Health Grant</p> <p>Risk</p> <p>From our review of the Public Health Grant, we identified and challenged a number of transactions against the scope of allowable expenditure as defined by the grant conditions. These transactions were subsequently replaced by an overarching 'management cost', which is a calculated figure based on budgeted spend for the year.</p> <p>We note that this is not disallowed under the terms of the grant. However, there does not appear to be a robust audit trail between the levels of management cost charged to the grant and the actual costs of managing the grant or activity levels.</p> <p>There is a Revenue Outturn (RO) assurance statement signed by the Authority prior to the audit which declared that the amounts claimed are eligible expenditure on public health. It is unclear how this assurance can be provided given the lack of a robust audit trail.</p> <p>Recommendation</p> <p>Whilst we are satisfied that the Public Health Grant is not materially misstated in the context of our overall financial statements audit, the Authority should implement the following over the use of the Public Health Grant:</p> <ul style="list-style-type: none"> • review the management charge methodology to ensure that the amount charged is robustly evidenced, justified, and can be linked to activity levels or actual management costs incurred; • timely review by management of expenditure funded through the grant to ensure it is appropriate and meets the grant's terms and conditions; and • the Authority should engage an appropriately qualified independent accountant or an external auditor in order to demonstrate compliance with the terms and conditions of the grant. 	<p>The Authority will review the underlying methodologies and evidence for recharging costs to the Public Health Grant for 2017/18, which will incorporate a management review process.</p> <p>The aspect of the recommendation that is not accepted however is the need to engage an independent accountant or external auditor to demonstrate compliance with the terms and conditions of the grant.</p> <p>The Authority considers that the existing arrangements whereby returns are made to Public Health England and signed off by the Director of Public Health provide sufficient oversight and third party challenge to the Authority's submission.</p> <p>Responsible Officer</p> <p>CFO / S151 Officer</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>There are strengthened management controls in place to ensure that the Public Health Grant is spent in accordance with the conditions of the grant. Historic misapplied grant expenditure has ceased.</p> <p>Potential new areas of investment are documented in business cases which clearly link expenditure to outcomes and how these will be monitored and reviewed by the Director of Public Health.</p> <p>Ongoing contracts are monitored monthly at the Quality and Performance Board to ensure that they are achieving the required outcomes. Expenditure is reviewed and signed off by the Director of Public Health who is in regular contact with Public Health England over the use of the grant.</p> <p>There is a suitably trained dedicated accountant who supports the Public Health Directorate.</p> <p>The final statement of assurance for the 2017/18 financial year was approved by the Council's S151 Officer and Director of Public Health in October 2018.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
16	2	<p>WGA</p> <p>Risk</p> <p>As part of the Whole of Government Accounts (WGA) exercise, the Authority is required to submit its initial Data Collection Tool (DCT) by 30 June 2017. The Authority did not meet this deadline due to capacity issues. This resulted in the Authority's exclusion from the initial mismatch list, and subsequently led to a delay in our ability to start the audit work as initially planned.</p> <p>As part of undertaking our WGA procedures, we noted the following:</p> <ul style="list-style-type: none"> delays in receiving audit evidence to support the queries raised as part of the WGA work programme. This delayed the conclusion of our WGA audit work; the Authority did not complete and sign off the management review checklist prior to submitting the stage 1 DCT pack. The checklist provides assurance to management, HM Treasury and ourselves that proper procedures are in place for providing WGA data. This checklist was signed on 19 September 2017, over a month following the submission of the stage 1 DCT pack; and our audit testing identified an instance where inappropriate transactions were included against a counterparty. <p>The issues above have resulted in the Authority missing the DCT submission deadline of 30 September; the Authority also missed the submission deadline in 2015/16. Our WGA Assurance Statement was submitted on 31 October 2017 following the completion of our testing.</p> <p>Recommendation</p> <p>In light of the change to the statutory deadlines 2017/18 the Authority should review its timetable to complete the DCT in order to achieve the stage 1 submission deadline.</p> <p>This revised timetable should ensure the Closedown team has sufficient understanding of the mismatch process to ensure mismatches to be followed up appropriately. The Authority should ensure there is appropriate Closedown team capacity to finalise audit queries on the DCT in order to submit the signed WGA assurance statement by the statutory deadline.</p>	<p>The arrangements and timetable for the Authority to meet the earlier closure deadlines for 2017/18 will incorporate the WGA processes to meet the required deadlines.</p> <p>Also as part of the ERP implementation the ability to automate aspects of the WGA from the system is being considered, for example identifying counter parties within the ERP system itself.</p> <p>The resource and capacity of the team will be kept under review and discussed with the CFOs in order to achieve the earlier deadlines in future years.</p> <p>Responsible Officer Head of Integrated Finance</p> <p>Implementation Deadline 31/03/2018</p>	<p>Due to the priority to finalise the final statement of accounts and due to resource and timing issues it was agreed with KPMG that the focus would be on completing the final statements.</p> <p>Therefore the WGA return has been deferred but will still need to be completed. The Council has been in liaison with the WGA team in central government who understand the position.</p> <p>However the recommendation remains relevant and will be factored in to the closedown timetable and processes for future years to achieve delivery by the required deadlines. It should be noted that this is not possible for 2018/19 given those draft accounts have not yet been signed off for release.</p> <p>That being said ERP Gold, the Council's new financial system, includes counterparty identification numbers on the supplier and customer records.</p> <p>This will lead to a much improved and streamlined process whereby for system based transactions (the vast majority of transactions) the counterparty identification is readily available, This will remove much of the manually intensive work that is currently required as part of this process.</p>

Appendix 2:

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
17	2	<p>School Bank Accounts not recognised</p> <p>Risk</p> <p>We obtained bank confirmation which indicated that 21 schools' Fund Accounts were not recognised on the Authority's balance sheet, therefore understating the Authority's cash balance. The total value of these Fund Accounts was £267,452. This was below our adjustment threshold. However, this indicates that there is a deficiency with the Authority's process for identifying and reporting school accounts.</p> <p>Recommendation</p> <p>The Authority should ensure its reconciliation is completed against a list of all schools' bank accounts. This should be reconciled on a monthly basis which will help mitigate the risk that school accounts are not identified or recognised on the Authority's balance sheet.</p>	<p>The reconciliation process will be reviewed and improved where necessary to ensure all schools bank accounts are identified and included in the Authority's balance sheet.</p> <p>Responsible Officer</p> <p>Head of Integrated Finance</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	<p>Noted as Superseded</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
18	3	<p>Journal entries (Authority and Pension Fund)</p> <p>Risk</p> <p>Journals can be posted by anyone in the Pensions ledger without any authorisation. There are no limits on the value of the journals.</p> <p>An annual review is in place however the individual performing the review posts journals themselves, indicating a lack of segregation of duties. They also would be required to review journals posted by more senior staff members, which they may be less likely to question or challenge if they seem unusual.</p> <p>Recommendation</p> <p>Both the Authority and the Pension Fund should explore available options to improve its journal controls. This review should consider how the system can be utilised to support improvement:</p> <ul style="list-style-type: none"> • Segregation of duties regarding the authorising, posting, reviewing and reconciling of journal entries; • Access rights controlling who is authorised to record and approve journal entries along with the posting and authorisation limit; and • Oversight of the journal entry-posting process by members of management including post-entry review based on a defined risk based approach. 	<p>As stated in the Authority’s response when the ISA260 was issued in September 2016, whilst there is no explicit approval at the point at which journals are entered into the system the Authority considers that it has a robust system in place as part of its monthly budget monitoring process to identify any errors and mispostings.</p> <p>Budget managers and Finance Business Partners review and scrutinise transactions as part of the monthly monitoring process. Particular scrutiny is given at year-end to accruals journals (debtors, creditors, receipts in advance and payments in advance) to ensure that the entries are appropriate and accurate.</p> <p>Regular reconciliations also take place on bank, suspense and holding accounts.</p> <p>The Authority is in the process of implementing its new ERP Gold system. Whilst it is unlikely that journal procedures will change on the existing system, due consideration will be given to the procedures implemented as part of the ERP Gold build to ensure that they are robust and appropriate.</p> <p>Responsible Officer S151 Officer</p> <p>Implementation Deadline 31/03/2018</p>	<p>The County Council accepts that there were some weaknesses in journal controls. However, these were mitigated by the fact that journal controls are carried out by the Finance teams under the supervision of qualified accountants.</p> <p>Nevertheless, the County Council has implemented a new financial system, ERP Gold, and has been mindful of KPMG’s advice in establishing the controls on the new system. The controls over journal entry on ERP Gold are as follows:</p> <ul style="list-style-type: none"> • a system password is needed to process a journal; • system users need to be assigned a specific role to be able to process journals and be assigned an ‘auto-approval’. This includes professional finance staff, the business systems team, HR, AP and AR; • all journals have a record as to who uploaded them; • the journals must balance, must use valid codes, and can only be posted into open periods; • all budget managers should be reviewing their balances and transactions at the end of the month and investigating exceptions; • journals can be reported on and reviewed, by exception, by Finance at any time; • any journals found to be incorrect can be easily reversed; all entries will show on the audit trail; • bulk upload journals. Large, multiple line journals over a particular size/value – mostly internal recharges. Rather than these journal having to be approved on a line by line basis, the system picks the first line of the journal, looks up which directorate it belongs to and then send the journal to the nominated finance contact for that directorate who is then asked to review and approve the whole journal for posting; and • for the remaining, small size/value journals – these go to service managers for approval. This is based upon the coding of the lines within the journal and the HR hierarchy for staff within those directorates (based upon the Tier 4 hierarchy of the codes within the journal). <p>However, the Deputy S151 Officer is currently reviewing the number of officers that have authority to authorise journals, and whether further controls are required. This review will be completed by August 2019.</p>

Follow-up of prior year recommendations (cont.)

#	Risk	Issue & Recommendation	Original Management Response	Status as at July 2019 assessment by Management
19	3	<p>Consolidation of subsidiaries</p> <p>Risk</p> <p>The audit of the Authority’s three current subsidiaries has resulted in a cumulative audit adjustment of £881,000. This has not been reflected within the Authority’s 2016/17 Group accounts and gives rise to an unadjusted audit difference of the same amount. This is above our adjustment and reporting threshold, see page 6. We understand that the Authority’s Group accounts production process does not take into account audit adjustments within its subsidiary companies which may be identified by subsidiary auditors. Going forwards, there is a risk that material audit adjustments may not be accurately reflected within the Authority’s Group accounts.</p> <p>Recommendation</p> <p>The Authority should review its consolidation process and ensure that this includes a review of post-audit adjustments.</p>	<p>The decision was made not to adjust for these audit differences on the basis that they were not material to the NCC accounts. However the recommendation is accepted and the process for identifying and incorporating audit adjustments within the Council’s subsidiaries will be reviewed for 2017/18 accounts.</p> <p>Responsible Officer</p> <p>Head of Integrated Finance</p> <p>Implementation Deadline</p> <p>31/07/2018</p>	<p>No audit adjustments and therefore updates were required from NCC's subsidiaries as part of the 2017/18 closure, hence why the recommendation is not relevant to 2017/18.</p>

Audit differences

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.

A number of minor amendments focused on presentational improvements have also been made to the 2017/18 draft financial statements. The Closedown team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Northamptonshire County Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted, as stated below, in the final revised set of financial statements.

Table 1: Adjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1					DR CAA £1,355 CR General Fund £1,355k	Adjustment arising from change in MRP calculation for PFI assets not processed in time for draft financial statements.
2			CR Cash £928k	DR Short Term Creditors £928k		Adjustment arising from schools becoming Academies between January and March 2018.
3			DR Short Term Investments £688k CR Long Term Debtors £1,188k	DR Suspense Account £500k		Adjustments arising from mis-coding of loan repayments.
4			CR Cash £5,000k	DR Short Term Borrowing £5,000k		Incorrect coding of a loan repayment, overstating borrowings and cash by £5 million in draft financial statements.
5	DR F&R FRS17 adjustments £3,160k	CR Retirement Benefits (FRS17 adjustment) £3,160k		DR Pensions Liability £3,160k	CR Pensions Reserve £3,160k	This relates to the change to the firefighters pension liability outlined in the CIES.
6			DR Cash £956k	CR Creditors £956k		Miscoding identified -firefighters pension cost to cash rather than creditors.

Appendix 3:

Audit differences (cont.)

Adjusted audit differences – Authority (cont.)

Table 1: Adjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
7	CR Net Cost of Services £1,382k DR Dedicated Schools Grant £1,382k		CR Cash £1,197	DR Creditors £508k	DR Earmarked Reserves £689k	Schools cash balance was de-recognised to reflect that 3 schools had transferred to academy status before the 1 April 2018.
8	DR Expenditure £8,000k	CR Budget Deficit £8,000k		CR Short Term Provisions £8,000k	DR General Fund £8,000k	Inclusion of Public Health Grant provision based on expectation of repayment as of financial year end.
9					DR General Fund £16,998k CR Capital Receipts Reserve £16,998k	Reversal of capital receipts to fund revenue expenditure, deemed non-transformational in nature.
10	DR Children's Services Revenue £13,500k	CR Budget Deficit £13,500k		CR Long term loans Grants received £13,500k	DR General Fund £13,500k	Reversal of S106 monies used to fund general expenditure.
11	DR Children's Services Revenue £2,900k	CR Budget Deficit £2,900k		CR Creditors S38 Receipts In Advance £2,900k	DR General Fund £2,900k	Reversal of S38 monies used to fund general expenditure.
12	CR Net Cost of Services £49,800k	DR Adjustments between accounting and funding basis £49,800k	DR PPE £49,800k		CR Capital Adjustment Account £15,900k CR Revaluation Reserve £33,886k	Adjustment arising from revised revaluations received for Property, Plant and Equipment.
13	DR Net Cost of Services £4,310k	CR Adjustments between accounting and funding basis £4,310k	CR PPE £4,310k		DR Capital Adjustment Account £2,323k CR Revaluation Reserve £1,987k	Adjustment arising from revised revaluations received for One Angel Square.
14					CR General Fund £4,739k DR Earmarked Reserves £4,739k	Reallocation / use of existing reserves to mitigate the impact of audit adjustments noted above, resulting in the Authority reporting a negative General Fund position.

Appendix 3:

Audit differences (cont.)

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.

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Northamptonshire County Council's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £5.4m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	CR Loss on disposal £322k	N/A	N/A	N/A	DR Capital Adjustment Account £322k	2016/17 asset disposals were transacted in 2017/18 resulting in a loss on disposal of £322k impacting 2017/18 financial statements.
2	DR Net Cost of Services £1,810k	CR Budget Deficit £1,810k		CR Short Term Provisions £1,801k	DR General Fund £1,801k	Increasing Insurance Provision to match figure deemed appropriate by Actuary.

Appendix 3:

Audit differences (cont.)

Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code').

Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table.

It is our understanding that these will be adjusted in the final revised set of financial statements.

Table 5: Presentational adjustments – Authority

No.	Basis of audit difference
1	The Authority omitted some disclosures required under SIC 29 in their PFI note.
2	The heading of Changes in Foreign Exchange Rates in draft account is incorrect, its Effect of Settlements per Actuary Report. The heading need to be updated to Effect of Settlements in final account.
3	The rate of "Take up of option to convert annual pre April 2008 service pension into retirement grants" and of "Take up of option to convert annual post April 2008 service pension into retirement grants Local Government Pension Scheme" in 2017-18 is missing in draft account. They are 50% and 75% per Actuary Report. These two rates need to be updated to 50% and 75% in final account.
4	The draft accounts does not agree for longevity (increase in 1 year) (2.6%) of Fire Fighter Pension Scheme in to Actuary Report (2%). Also draft accounts does not agree for "Rate of increase in pension (increase 0.5%) (8.7%) of Fire Fighter Pension Scheme" (Actuary Report (7.5%)) and for "Rate for discounting Scheme liabilities (decrease by 0.5%) of Fire Fighter Pension Scheme to Actuary Report (9.5%).
5	Disclosure of firefighters pension pay member contribution bands are not consistent with national figures.
6	An acquisition of fixed assets during 2017/18 was incorrectly processed through Asset under construction rather than normal additions impacting the PPE disclosure.
7	"Application of grants to capital financing from the Capital Grants Unapplied Account" does not agreed to the Capital Financing Note resulting in a difference of £5m.
8	The 17/18 Fire Fighters Actuary Report listed £6.05m of Current Service Cost splitting into three lines: Current Service Cost - £4.68m, Contribution by Scheme Participants and Curtailments - 1.2m, Settlements and past Service - 0.17m. The disclosure in draft accounts was not inline with the actuary's report.
9	Note 36, the disclosure amount of £4.9m needs amending to £16.4m for the figure paid to the Teachers Pensions Agency for teachers' pension costs.
10	DSC figure of 233,333k needs to be consistent in note 9 and 10.
11	Deprecation and impairment figures needs to be consistent across note 12, CAA and Note 26.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement 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 2017/18*, presented to you in March 2018.

Materiality for the Authority's accounts was set at £5.4 million which equates to around 0.5 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, an individual difference is considered to be clearly trivial if it is less than £0.27 million 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.

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Appendix 5:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified a number of adjusted audit differences. See page 134 for details. These adjustments result in a negative general fund balance as of 31 March 2018 of £35.3 million. See page 36 for further details.
Unadjusted audit differences	The net impact of unadjusted audit differences on the general fund balance would be £1,810k. There is also an adjustment relating to loss on disposal valued at £322k. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix 3 for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<p>We have set out our assessment of the Authority's internal control environment, including details of significant deficiencies identified, in our <i>In Interim Report 2017/18</i> with an update included at page 17 of this report.</p> <p>We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing through our in year reporting.</p>
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p>
Significant matters discussed or subject to correspondence with management	<p>The following significant matters arising from the audit which were discussed, or subject to correspondence, with management. Throughout the course of the audit we have provided our progress reports to the Audit Committee detailing the issues we have found, and these are noted in this document.</p> <p>We have held extensive discussions with management, and are currently considering whether we issue a Public Interest Report.</p>



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NORTHAMPTONSHIRE COUNTY COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a Partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix Seven, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017/18 £	2016/17 £
Accounts opinion and value for money work		
PSAA Scale fee – 2017/18 Northamptonshire County Council (NCC) audit	137,660	137,660
NCC External Audit – Fee variation: January 2018 to September 2018	300,000	53,963
NCC External Audit – Fee variation; October 2018 to July 2019	187,000*	
NCC Advisory Notice and Best Value Inspection	40,212	
NCC Related Legal Costs	49,900	
Total Authority Fees	714,772	191,623
PSAA Scale fee – 2017/18 Northamptonshire Pension Fund (NPF) audit	24,285	24,285
NPF External Audit – Fee variation		3,670
NPF External Audit – Other mandatory work	4,030	4,030
Total Pension Fund Fees	28,315	31,958
Total audit services	743,087*	223,581
Audit related assurance services and mandatory assurance services	7,170	11,775
Total Non Audit Services	0	0

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

All fees quoted are exclusive of VAT.

For 2016/17, the additional NCC overrun fees relate to overruns on the 2016/17 accounts opinion and use of resources work. This fee was agreed with the former S151 Officer and subsequently approved by the PSAA.

For 2017/18, the additional NCC and NPF overrun fees relate to overruns on the 2017/18 accounts opinion and use of resources work, where we have performed additional work to support our use of resources opinion. The interim amount for NCC – of £300,000 has been agreed with the S151 Officer and subsequently approved by the PSAA, with the final amount to complete the audit is yet to be finalised – but estimated to be c£187,000. We will hold discussions with the S151 Officer regarding this and then seek PSAA determination and approval.*

Appendix 6:

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Summary of non-audit work		
Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
<p>Teachers Pension's Audit (this work is anticipated following the completion of the Financial Statements audit)</p>	<p>£7,170 Actual Basis of fee - fixed</p>	<p>Self-interest: This engagement is separate to the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p>Self-review: The nature of this work is to review the Authority's submissions to the Teacher's Pensions Agency ('TPA') and verify the accuracy of the return. This work is based on the requirements of the TPA and thus does not help us form either our opinion on the Authority's Financial Statements or arrangements for achieving value of money. Consequently, we consider we have appropriately managed this threat.</p> <p>Management threat: This work will be a compliance review in line with the requirements of the TPA – all decisions will be made by the Authority.</p> <p>Familiarity: This threat is limited given the nature of the work is set by the TPA. This work is undertaken subsequent to the completion of the Financial Statements audit.</p> <p>Advocacy: We will not act as advocates for the Authority in any aspect of this work. We will provide a certificate to the TPA verifying the work performed and accuracy of the return but the scope of this work falls well short of any advocacy role.</p> <p>Intimidation: Not applicable</p>
Total actual and estimated fees	£7,170	
Total estimated fees as a % of the NCC external audit fees	1%	

Appendix 6:

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £137,660 plus VAT (£137,660 in 2016/17), which is consistent with the prior year. As reported throughout the year, during the course of the audit, including associated work relating to the Advisory Notice, we have incurred significant additional fees due to the high risk nature of the engagement, as well as the specific circumstances the Authority has found itself in during 2017/18.

We have set these fees out below, and have discussed and agreed these with Officers throughout the year, including the current and previous Section 151 Officers, as well as the Chairman of the Audit Committee. We have also kept the Audit Committee up-to-date with these fees as they have been incurred. An element of these fees are still subject to PSAA's final determination.

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee – 2017/18 Northamptonshire County Council (NCC) audit	137,660	137,660
NCC External Audit – Fee variation: January 2018 to September 2018	300,000	53,963
NCC External Audit – Fee variation; October 2018 to July 2019	187,000*	
NCC Advisory Notice and Best Value Inspection	40,212	
NCC Related Legal Costs	49,900	
Total Authority Fees	714,772	191,623
PSAA Scale fee – 2017/18 Northamptonshire Pension Fund (NPF) audit	24,285	24,285
NPF External Audit – Fee variation		3,670
NPF External Audit – Other mandatory work	4,030	4,030
Total Pension Fund Fees	28,315	31,958
Total audit services	743,087*	223,581
Audit-related assurance services		
Teachers' Pension Return	7,170	7,500
SFA subcontracting compliance	n/a	4,275
Total audit-related assurance services	7,170	11,775
Total non-audit services	0	0
Grand total fees for the Authority	750,257*	235,356

All fees quoted are exclusive of VAT.

For 2016/17, the additional NCC overrun fees relate to overruns on the 2016/17 accounts opinion and use of resources work. This fee was agreed with the former S151 Officer and subsequently approved by the PSAA.

For 2017/18, the additional NCC and NPF overrun fees relate to overruns on the 2017/18 accounts opinion and use of resources work, where we have performed additional work to support our use of resources opinion. The interim amount for NCC – of £300,000 has been agreed with the S151 Officer and subsequently approved by the PSAA, with the final amount to complete the audit is yet to be finalised – but estimated to be c£187,000*. We will hold discussions with the S151 Officer regarding this and then seek PSAA determination and approval.



The key contacts in relation to our audit are:

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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.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, andrew.cardoza@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, Andrew Bostock, by email to andrew.bostock@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.

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External Audit ISA260 Report 2017/18

Northamptonshire
Pension Fund

DRAFT - July 2018



Summary for Audit Committee and Pension Committee

This document summarises the key findings in relation to our 2017/18 external audit at Northamptonshire Pension Fund ('the Fund').

This report covers both our on-site work which was completed in February and May to June 2018 on the Fund's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Pension Fund Financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Fund's financial statements by the deadline of 31 July 2018. However, this is subject to the completion of our audit work on the County Council's financial statements.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 7):

- **Incorrect investment valuations** – We have performed substantive procedures over the fund's investment balances, including specific work over those assets that are more difficult to price. Based on the work we have performed, we conclude that the valuation of investments for 2017/18 are appropriate.

We have identified no audit adjustments as part of our work. However, we identified a number of presentational adjustments required to ensure that the Fund's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Fund Accounting in the United Kingdom 2017-18 ('the Code'). Based on our work, we have raised a recommendation relating to the review of reconciliation between the Custodian's records and the general ledger. Details of our recommendations can be found in Appendix 1.

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit. We may not be able to issue our certificate alongside the opinion due to the Whole of Government Accounts work being outstanding for the County Council (the deadline for submission is 31 August).

Controls over key financial systems and IT control environment

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We have highlighted an improvement in your journals process in Appendix 1, building on the recommendation from last year which is yet to be implemented and a new recommendation for revoking leavers access right from the Oracle system.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Fund should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their help throughout our audit and wish them good luck for the future.

Section one

Control Environment



Organisational and IT control environment

We have identified no significant issues with the Fund's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

However, our recommendation regarding journal authorisation raised in our *ISA 260 Report 2016-17* has not been implemented by management. Further details can be found in Appendix 2.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Fund's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Fund relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall. However our recommendation raised in 2016-17 has not been implemented. After discussion with the management we have updated our journals recommendation from the last year as below:

- Journals can be posted only by those who have been granted the relevant access rights to the ledger system. We have reviewed the process whereby an individual is granted access and found that this process is designed and operating effectively to ensure there is no inappropriate access to the ledger. However, once a user is granted access there is no formal review process, before a journal is posted, nor are there any limitations on the amount or type of journal. This gives rise to a risk that an individual could post an incorrect or inappropriate journal without undergoing review. We recognise that this risk is mitigated by the budgetary controls in place at the Authority/Pension Fund.

This weakness meant that we carried out compensating tests such as substantively reviewing all high risk journals posted throughout the reporting period.

- Our testing of IT controls highlighted that 62 leavers had not had their access to Oracle revoked. This risk was mitigated through the fact that all but one of these users had low-risk/read only access to Oracle. For the one individual who had approval access, we noted that they did not approve anything subsequent to their leaving date.

This weakness did not mean that we had need to alter our audit strategy, we have however included a recommendation in Appendix 1.

Aspect of controls	Assessment
IT controls:	
Access to systems and data	2
System changes and maintenance	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

Controls over key financial systems

The controls over the key financial systems are adequate, however, we have raised a recommendation to further strengthen the investments reconciliation review. Further details can be found in Appendix 1.

Work completed

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

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are adequate. However we have noted the following exception:

- As part of our audit work on investments we noted that the reconciliation between the Custodian's records and the ledger is not formally reviewed.

See Appendix 1 for the recommendations that we have raised.

An overhead photograph of four business professionals sitting around a white conference table. A woman in a grey top is at the top, looking at a laptop. A man in a light blue shirt is on the left, also looking at a laptop. A woman in a white top and black skirt is at the bottom left, resting her head on her hand. A man in a light blue shirt is at the bottom right, with his hands clasped. The scene is brightly lit with natural light from the left, creating shadows on the table and floor.

Section two

Financial Statements

Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Fund's accounting practices and financial reporting.

We also assessed the Fund's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Fund's overall process for the preparation of the financial statements is adequate.

The Fund has not implemented the recommendation raised in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Fund incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Fund recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is adequate.

Going concern

The financial statements of the Fund have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Fund to continue as a going concern. We note the proposed changes to the structure of Local Government within Northamptonshire.

Implementation of recommendations

We raised one recommendation in our ISA 260 Report 2016/17. The Fund has implemented this recommendation, but not within the timescales of the action plan. As at 1 April 2018, the Fund transitioned onto its new finance system, Agresso. This enabled them to configure the system to require approval of journals before they are posted. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 29 May 2018 which was ahead of the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to Ben Barlow (Pension Fund Accountant) and Kirsty Myles (Principal Finance Technician) on 25 April 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Fund to provide to support our audit work. This helps the Fund to provide audit evidence in line with our expectations.

Working papers were of a high quality, with sufficient detail and clarity, therefore enabling us to carry out our audit within the timescales outlined within our Accounts Audit Protocol 2017/18.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the Finance team. As a result of this, all of our audit work was completed within the timescales expected with no outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Fund's 2017/18 financial statements by 31 July 2018. However, this is subject to the completion of our audit work on the County Council's financial statements.

For the year ending 31 March 2018, the Fund has reported a net increase in assets of £39m. As at 31 March 2018, the net assets of the Fund available to fund benefits was £2,322m.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

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

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2017/18 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Fund's financial statements.

Specific audit areas (cont.)

Area of Audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other Areas of audit focus

Additional areas of the accounts that our audit work focussed on.

Issue:

Completeness and timing of contribution receipts

Contributions are the main stream of income for the Fund, consisting of both employer and employee contributions, deducted through payroll.

Our assessment and work undertaken:

We reviewed and assessed the key processing controls and accuracy checks over contribution monitoring arrangements. The controls over monthly contribution monitoring arrangements are effective and we did not identify any significant differences between the contributions received from the admitted/scheduled bodies and figures reported in the financial statements.

Issue:

Processing and authorisation of benefit payments

Benefits are paid out of the fund to pensioners, through the payroll system. They form the majority of expenditure for the Fund.

Our assessment and work undertaken:

We tested the controls regarding the setting up of new pensioners onto the Fund's payroll system, alongside ensuring that correct details were input for each pensioner as part of this process.

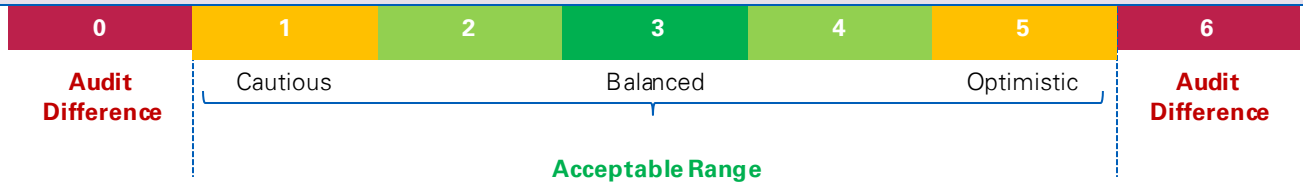
We also tested a sample of benefits paid in the year back to supporting documentation.

We did not identify any significant issues.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence



Subjective area 2017/18 2016/17 Commentary

Investment assets
 - Level 1 (£2,141m)
 - Level 2 (£55m)
 - Level 3 (£126m)

3

3

Level 1 assets are quoted and are inherently easy to price, based on the availability of daily price data to the Fund, the custodian and fund managers.

Level 2 and Level 3 assets are more difficult to price, based on the availability of pricing data, the access to similar assets within similar environments and the markets that these types of assets are traded on. Valuations of Level 2 and 3 assets are undertaken by experts (Fund Managers), upon whom we have placed reliance on the competence and independence of.

Based on the work we have performed, we can conclude that the Fund took a balanced view to valuing their Level 2 and Level 3 assets.

Proposed Opinion and Audit Differences

We anticipate issuing an unqualified audit opinion on the Fund's 2017/18 financial statements by 31 July 2018. However, this is subject to the completion of our audit work on the County Council's financial statements.

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 4) for this year's audit was set at £20 million. Audit differences below £1 million are not considered significant.

We did not identify any material misstatements. We identified a number of minor presentational issues that management have agreed to adjust.

Annual report

We have reviewed the Pension Fund's 2017/18 Annual Report and have confirmed that it is consistent with the financial statements and our understanding of the Pension Fund.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's 2017/18 financial statements.

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Northamptonshire Pension Fund for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Northamptonshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 6 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 Ben Barlow (Pension Fund Accountant) for presentation to the Audit Committee and Pension Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, 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 Fund's 2017/18 financial statements.

Appendices



Key issues and recommendations

Our audit work on the Fund’s 2017/18 financial statements has identified 3 areas for improvement. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Fund should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

1	<p>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.</p> <p>Recommendations Raised: 1</p>	2	<p>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.</p> <p>Recommendations Raised: 0</p>	3	<p>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.</p> <p>Recommendations Raised: 2</p>
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No.	Risk	Issue & Recommendation	Management Response
1	1	<p>Journals review/authorisation process</p> <p>Journals can be posted only by those who have been granted the relevant access rights to the journals system. We have reviewed the process whereby an individual is granted access and found that this process is designed and operating effectively to ensure there is no inappropriate access the ledger. However, once a user is granted access there is no formal review process before a journal is posted, or any limitations on the amount or type of journal. This gives rise to a risk that an individual could post an incorrect or inappropriate journal without undergoing review. We recognise that this risk is mitigated by the budgetary controls in place at the Authority and Pension Fund, and in some cases there is a retrospective review of journal entries however this is not consistent across the Authority and Pension Fund.</p> <p>Recommendation</p> <p>The Authority should explore available options to improve its journal controls. This review should consider how the system can be utilised to support improved:</p> <ul style="list-style-type: none"> • Segregation of duties regarding the authorising, posting, reviewing and reconciling of journal entries; • Access rights controlling who is authorised to record and approve journal entries along with the posting and authorisation limit; and • Oversight of the journal entry-posting process by members of management including post-entry review based on a defined risk based approach. 	<p>From 1 April 2018 we moved to a new ERP system. The new Agresso system has now inbuilt system controls where all journals are sent to a budget holder dependant on coding within journal for authorisation before journal is posted to the GL. Within 17/18 we also implemented as an immediate response to the 16/17 recommendation; all pension fund journals originating from within pensions are sent to a manager to authorise, before then being sent to a control inbox, to be uploaded to the GL. They are only uploaded with the correct manager authorisation.</p> <p>Responsible Officer</p> <p>Ben Barlow – Pension Services Financial Manager</p> <p>Implementation Deadline</p> <p>1 April 2018</p>

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
2	3	<p>Investments reconciliation review</p> <p>The Fund reconcile the fund manager’s and custodian’s records to their general ledger on a quarterly basis. Changes in market value are then journaled into the ledger following authorisation of the journal. However, as part of our controls testing work, we were not able to see formal evidence of the reconciliation itself being reviewed.</p> <p>Recommendation</p> <p>The Pension Fund team should ensure that their quarterly investment reconciliations are formally signed off once reviewed, to indicate that a segregation of duties has been followed. This will further strengthen the control environment, along with the addition of the journals approval process within the ledger system.</p>	<p>All quarterly investment reconciliations are reviewed by a senior officer, once reviewed they are then sent to the control inbox for uploading to the GL, Journals here are not uploaded without proper management authorisation. What KPMG require is the actual evidencing of the review. We are happy to add in a box on the reconciliation for ‘Approved by’ and ‘Approval date’ going forward.</p> <p>Responsible Officer</p> <p>Ben Barlow – Pension Services Financial Manager</p> <p>Implementation Deadline</p> <p>n/a</p>
3	3	<p>Leavers access rights</p> <p>Staff members who leave the Authority and Pension Fund are not removed from the IT system, meaning that their access is still valid. Our testing highlighted 62 leavers had not had their access to Oracle revoked. This risk was mitigated through the fact that all but one of these users had low-risk/read only access to Oracle. For the one individual who had approval access, we noted that they did not approve anything subsequent to their leaving date.</p> <p>Recommendation</p> <p>The Authority and the Pension Fund should ensure that all leaver access is revoked to mitigate the risk of unauthorised access to the IT systems.</p>	<p>From 1 April 2018 we moved to a new ERP system. The new Agresso system was updated with current users only when setup. The 62 leavers mentioned had their NCC logon disabled, thus preventing access to the Oracle programme. We believe this offered sufficient restriction of access.</p> <p>Responsible Officer</p> <p>IT/Financial Systems Team</p> <p>Implementation Deadline</p> <p>1 April 2018</p>

Follow-up of prior year recommendations

As at 31 March 2018, the Fund had not implemented the recommendation raised through our previous audit work.

We re-iterate the importance of the outstanding recommendation and recommend that this is implemented as a matter of urgency.

As at 1 April 2018, the Fund implemented its new ledger system, within which it has set up a segregation of duties and authorisation limits for journals posted to the pensions ledger.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were

Included in the original report	1
Implemented in year or superseded	1

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	1	<p>Journals review and authorisation process</p> <p>Journals can be posted by any team member (County or Pension Fund) in the Pensions ledger without any authorisation. In addition, there are no limits on the value of the journals.</p> <p>An annual review is in place however, the individual performing the review can also posts journals themselves, indicating a lack of segregation of duties. The reviewer in this case would also be required to review journals posted by more senior staff members, and as such they may be less likely to question or challenge these journals if they seemed unusual.</p> <p>Recommendation</p> <p>Both the Authority and the Pension Fund should explore available options to improve its journal controls.</p>	<p>The Pensions ledger continues to operate within the control environment of the County Council. Additional manual controls have been implemented to improve the prevention and detection of error and we are pleased to note that the external audit process found these to be operating effectively throughout 2016/17.</p> <p>The Pensions Service has requested that the forthcoming ERP Gold System, due for implementation in 2017/18, makes full use of the controls inherent within it; designed to ensure appropriate segregation of duties, approval and authorisation. We feel satisfied that these imbedded controls will mitigate the risks highlighted by KPMG and will offer a more robust solution to the manual controls currently adopted.</p> <p>Responsible Officer Mark Whitby/Paul Tysoe</p> <p>Implementation Deadline December 2017</p>	<p>As at 1 April 2018, the Pension Fund implemented its new ledger system, within which they have set up a segregation of duties and authorisation limits for journals posted to the Pensions ledger.</p> <p>As we have not tested the new system as part of our control testing, we can not comment on the effectiveness of controls with in the new system.</p>

Appendix 3:

Audit differences

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.

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 4) for this year's audit was set at £20 million. Audit differences below £1 million are not considered significant.

We did not identify any material misstatements. We identified a number of minor presentational issues that management have agreed to adjust.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement 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 2017/18*, presented to you in March 2018.

Materiality for the Fund's accounts was set at £20 million which equates to around 0.9 percent of total assets. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee and Pension 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 and Pension 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 Fund, an individual difference is considered to be clearly trivial if it is less than £1 million.

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 and Pension Committee to assist it in fulfilling its governance responsibilities.

Appendix 5:

Required communications with the Audit Committee and Pension Committee

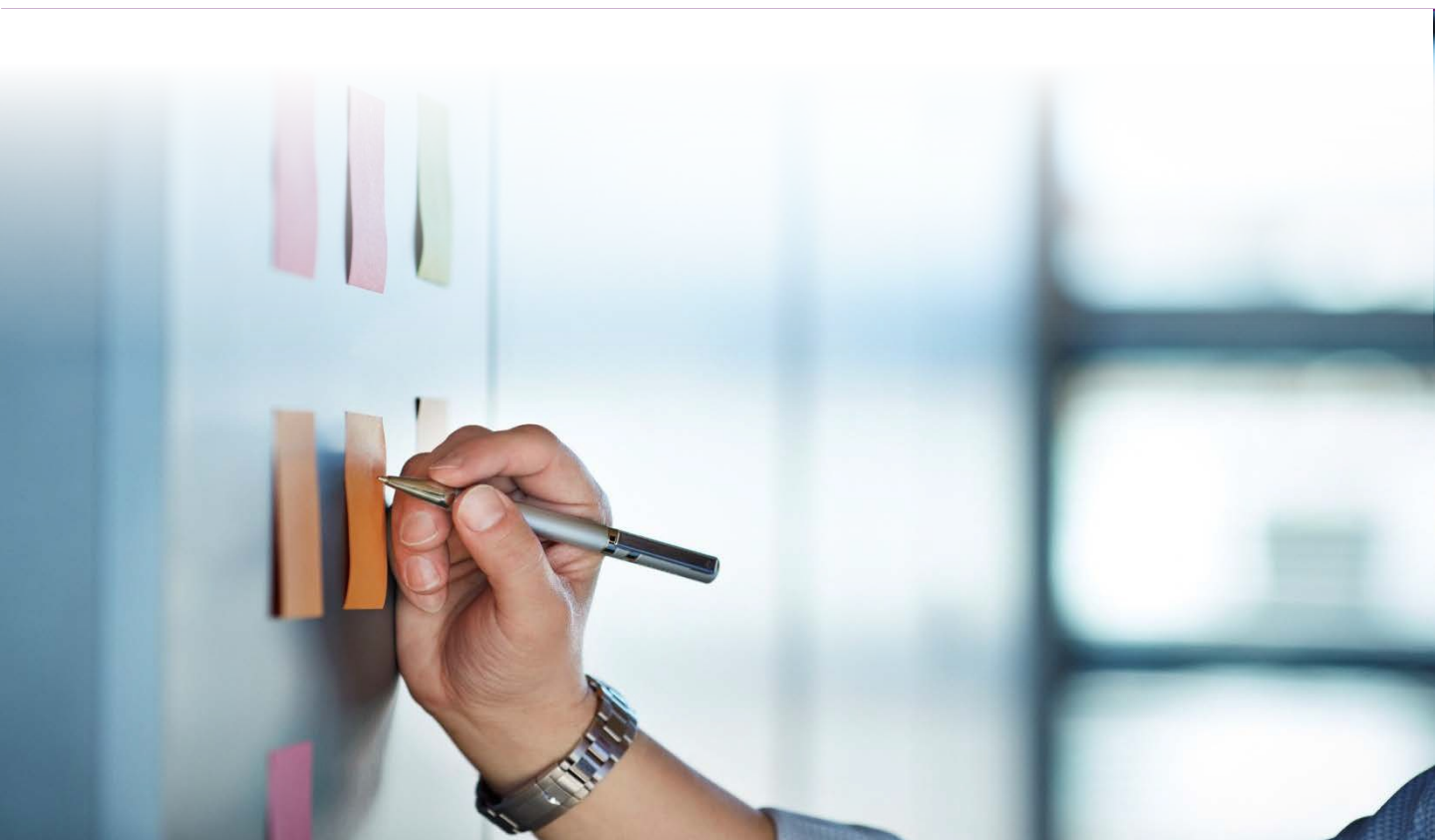
We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

Required Communication	Commentary
Our draft management representation letter	We have requested specific representations for valuation of investments in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of the audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee and Pension Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including details of significant deficiencies identified, in Section one of this report. We have identified no deficiencies in internal control of a lesser magnitude than significant deficiencies.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Audit Committee and Pension Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the judgements used in valuing the Fund's assets on page 10.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NORTHAMPTONSHIRE PENSION FUND

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is an Audit Director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 6:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Fund and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Fund for significant professional services provided by us during the reporting period in Appendix 7.

	2017/18 £	2016/17 £
Audit of the Pension Fund	24,285	24,285
Additional fee	0	3,670
Total audit services	24,285	27,955
Mandatory assurance services	TBC	4,030
Mandatory assurance services	TBC	4,030

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. There were no non-audit services provided other than the participating body assurance, which does not count towards the threshold as it is a mandatory assurance service as part of our contract with the PSAA.

Analysis of mandatory assurance services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Assurance provided to participating bodies	The nature of this mandatory assurance service is to provide assurance on pension fund assets and liabilities to certain participating bodies of the fund. As such we do not consider it to create any independence threats.	Fixed Fee	4,030	4,528

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee and Pension Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and Pension Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £24,285 plus VAT (£24,285 in 2016/17), which is consistent with the prior year.

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Northamptonshire Pension Fund	24,285	24,285
Additional work to conclude our opinions (note 1)	0	3,670
Total audit services	24,285	27,955
Mandatory assurance services		
Assurance provided to participating bodies	TBC	4,030
Total mandatory assurance services	TBC	4,030
Grand total fees for the Authority	TBC	31,985

All fees quoted are exclusive of VAT.

Note 1: For 2016/17, the additional fee was in relation to the triennial pension fund valuation.





The key contacts in relation to our audit are:

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This report is addressed to the Fund and has been prepared for the sole use of the Fund. 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.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Fund, 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 Bostock, by email to andrew.bostock@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.

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