KPMG

Annual Audit Letter 2016/17

Northamptonshire Police and Crime Commissioner & Northamptonshire Chief Constable

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October 2017

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). 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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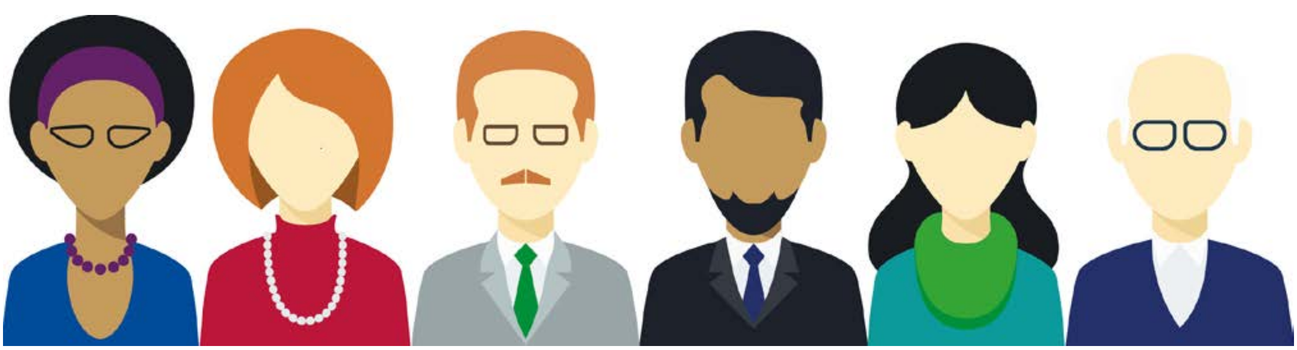


Section one

Summary

This Annual Audit Letter summarises the outcome from our audit work at both the Police and Crime Commissioner ("PCC") and Chief Constable ("CC") for Northamptonshire in relation to the 2016/17 audit year.

Although it is addressed to the PCC and CC, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the PCC and CC's websites.

VFM conclusion

We issued an qualified "except for" conclusion on the PCC's arrangements to secure value for money (VFM conclusion) for 2016/17. This decision was based on the following:

On 11 May 2016, the Police and Crime Commissioner approved a decision to sell Wootton Hall, the Force's Headquarters. The decision was taken on the day before his term of office finished. Our review of this decision identified significant weaknesses in the governance arrangements for informed decision making by the Police and Crime Commissioner in that:

- the decision to sell the Force's Headquarters was not supported by a business case that included detailed financial costings and analysis;
- the replacement Force's Headquarters had not been fully costed; and
- no analysis had been undertaken to determine if the sale price met the 'best value' statutory requirements for the disposal of the Force's assets.

The newly elected Police and Crime Commissioner immediately initiated a review of the decision. This review identified that the financial implications (both capital and revenue) had not been fully or accurately considered. The review further identified that if the decision had been followed through this could have resulted in a significant financial loss. On 19 January 2017, the Police and Crime Commissioner approved the decision to reverse the proposed sale of Wootton Hall.

We therefore concluded on the basis of our work and having regard to the guidance issued by the NAO in November 2016, that with the exception of the matters as stated above, we were satisfied that, in all other significant respects, Northamptonshire Police and Crime Commissioner put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

VFM risk areas

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

Our work identified the following significant matters:

— Budgetary Pressures; and

— Sale of Force Headquarters (Wootton Hall).

Audit opinion

We issued an unqualified opinion on the PCC and CC's financial statements on 29 September 2017. This means that we believe the financial statements give a true and fair view of the financial positions of the PCC and CC and of their respective expenditure and income for the year.

Financial statements audit

We identified the following issues in the course of the 2016/17 audit:

— One material misstatement which impacted on the accounts, related to the Force's decision to restate both the PCC and CC opening balances by £16.4m to reflect a transfer of assets between the PCC and CC that we determined had taken place during the year. The restatement was to amend the opening balances of both sets of financial statements, and reflect the substance of the transaction, which was an in year transfer;

— a number of presentational adjustments were required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17; and

— two process level control issues relating to authorization of overtime, and authorization of the posting of journals.

Our audit plan identified the Local Government pension scheme triennial revaluation, generation of the accounts using the CIPFA "big red button", and identification of related parties as significant risks or other areas of audit focus for the year. We noted that all of these areas had been addressed by the PCC and CC, although we did identify one additional related party during the course of our audit work not originally identified by the Force.

We have had regular meetings with officers throughout the year which has facilitated delivery of the audit and plan to discuss how we can work together to secure further improvement next year.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statements and Narrative Reports. We concluded that they were materially consistent with our understanding.

Whole of Government Accounts

The PCC prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the PCC falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

High priority recommendations

We raised a single high priority recommendation as a result of our 2016/17 audit work. This is detailed in Appendix 1.

— Accounts Production: officers made significant improvements in the accounts production process, providing a draft set of accounts to us prior to the start of the audit. However, we unfortunately noted a significant issue in the draft accounts, with a Prior Period Adjustment being processed, without formal prior confirmation or agreement of this with KPMG.

We will follow up this recommendation as part of our 2017/18 work.

Audit fee

Our fees for 2016/17 were £29,291 and £15,000, excluding VAT, for the PCC and CC respectively (which are consistent with the planned fees and the prior year fees).

Based on the additional work performed towards the end of the audit, considering the reversal of the prior period adjustment, we plan to charge additional fees. However, we have yet to discuss and agree the amount with the two s151 officers or the PSAA.

Appendix 1

Key issues and recommendations

No.	H/M/L	Issue and recommendation
1	H	**1. Accounts production** While we have noted that the Finance team have made significant improvements in the accounts production process, providing a draft set of accounts to us prior to the start of the audit. However, we unfortunately noted a significant issue in the draft accounts, with a Prior Period Adjustment being processed, without formal prior confirmation or agreement of this with KPMG. **Recommendation** In future years, there should be a protocol between the Finance Team and External Audit for any proposed significant accounts issues, such as proposed Prior Period Adjustments.
2	L	**2. Authorisation of Overtime** We noted that in the payroll process, there is no direct authorisation / approval of overtime hours at the point of payment. Whilst we recognise that there are subsequent retrospective reviews of pay costs at a budgetary level, there is currently a risk that payments could be made for hours not worked. **Recommendation** The Force should consider adding additional controls into the overtime process so that it requires supervisor approval of overtime hours worked, prior to processing and payment.
3	L	**3. Authorisation of Journals** As part of our testing around journal controls, we noted that journals are not authorised electronically on the system but are retrospectively printed off and reviewed as part of the budget monitoring process. The risk is that an inappropriate journal entry could be made and not detected by the Police Authority's internal controls. **Recommendation** The Force should consider adding additional controls into the journals process so that it requires authorisation of journals, prior to posting.

Follow up of previous recommendations

As part of our audit work we followed up on the PCC's progress against previous audit recommendations. We are pleased to report that the PCC has taken appropriate action to address the issues that we have previously highlighted.

H High M Medium L Low

Appendix 2

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

Interim Audit Letters

The Interim Audit Letters reported on the outcome of the planning and control evaluation phases of our audit, concluding that no matters were required to be reported to the Joint Independent Audit Committee.

2017 Jan Feb Mar Apr

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letters

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

Appendix 2

Auditor's Report

The Auditor's Report included our audit opinions on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

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

May Jun Jul Aug Sep Oct Nov

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Appendix 3

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the PCC and CC we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

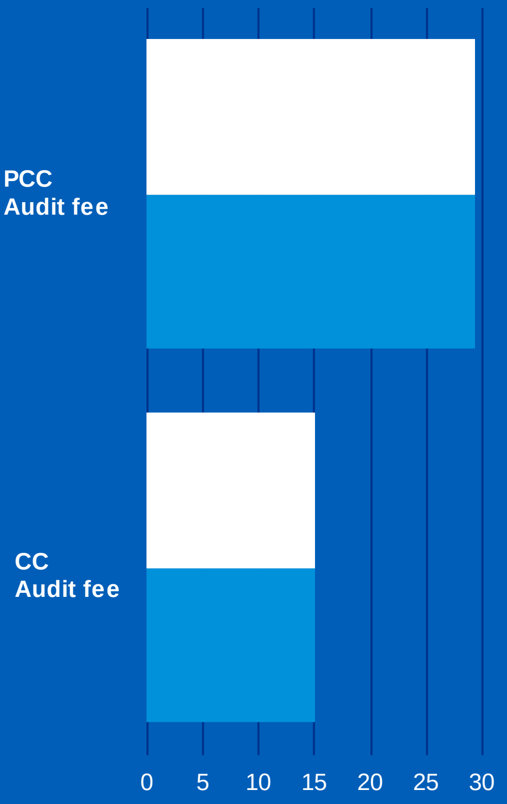
Our final fees for the 2016/17 audits of the PCC and CC were £29,291 and £15,000 respectively. These compare to planned fees of £29,291 and £15,000.

We have not yet agreed overruns for the additional work performed over the misstatement identified, and will discuss and agree this with the two s151 officers, prior to submitting the additional fee proposal to the PSAA for its approval.

Other services

We did not charge any additional fees for other services.

External audit fees 2016/17 (£'000)



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