External audit report 2016/17

- Northamptonshire Police and Crime Commissioner and Northamptonshire Chief Constable
- September 2017

Summary for [Audit Committee]

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit of Northamptonshire Police and Crime Commissioner ("PCC") and Northamptonshire Chief Constable ("CC") and the Group Accounts.

This report focusses on our on-site work which was completed in August 2017 on your significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 5.

Our report also includes additional findings in respect of our control work.

During our audit visit we identified that the Accounts had been prepared including a Prior Period Adjustment ("PPA") in relation to formally transferring Police Property, Plant and Equipment ("PPE") from the CC to the PCC. We noted that this transfer was formally agreed in year, and, as such, the transfer should not have been processed as a PPA. As such, we have identified a misstatement relating to this. This misstatement has now been corrected.

We now expect to issue an unqualified opinion over the PCC, CC and group financial statements.

We have identified a number of presentational differences which have been communicated to management. Except for the issue identified above, we have not identified any audit adjustments.

Based on our work, we have raised 3 recommendations. Details on our recommendations can be found in Appendix 1.

Use of resources

We have completed our risk-based work to consider whether in all significant respects you have proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the arrangements surrounding the disposal of Force Headquarters.

See further details on page 14.

Public Interest Report

We have a duty to consider whether to issue a report in the public interest about something we believe you should consider, or if the public should know about. We have not issued any such reports.

Acknowledgements

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

We ask the Audit Committee to note this draft report.

KPMG

Contents

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Section one

Financial Statements

- We anticipate issuing an unqualified audit opinion on the 2016/17 financial statements. 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.

- For the year ending 31 March 2017, the Group has reported a deficit of £30.7m. The impact on the General Fund has been a decrease in the General Fund of £0.9m.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the your significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Related Parties Disclosure	**Why is this a risk?** Police Bodies are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. A disclosure is required if a transaction (or series of transactions) is material. The risk is related party relationships and transactions are not disclosed. In our prior year audit we reviewed the governance processes in place at the PCC and CC to capture declarations of interest and report related party transactions. We identified that a related party transaction had not been included within the PCC's financial statements for all declarations. Although a record was subsequently included within the related parties note within the financial statements. This was a recommendation in our prior year ISA 260 report and therefore we deem the risks of material misstatement due to fraud or error could arise from non-disclosure of such transactions. **Our work to address this risk** Our strategy was to review disclosures for completeness and testing to supporting evidence. We reviewed the governance processes in place at the PCC and CC to capture declarations of interest and report related party transactions for inclusion within the financial statements. We identified one additional related party that had not initially been disclosed in the accounts.
2. Generation of the Accounts using the CIPFA Model	**Why is this a risk?** The PCC and CC are generating the financial statements using the new CIPFA Model for the first time. This approach is being developed by the Finance team with CIPFA with a view to streamlining the generation of the financial statements. The use and implementation of the new approach and processes brings a risk with developing the approach and the accuracy and consistency of accounting entries to support the accounts. **Our work to address this risk** We reviewed the approach being developed for the generation of the financial statements by the Finance team and reviewed the use of the CIPFA model. After gaining an understanding of this process, we identified that the underlying work we would need to perform was agreeing the accounts as produced through BRB back to the finance system. We performed this work, and, while we recognise the progress that has been made since the previous year, we have still struggled to reconcile the accounts back to the ledger.

Significant audit opinion risks	Work performed
3. Triennial Pension Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for Northamptonshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The PCC and CC's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Northamptonshire County Council, who administer the Pension Fund. **Our work to address this risk** As part of our audit, we agreed data provided by you to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data. We also liaised with the Pension Fund Audit team, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on your behalf to check the completeness and accuracy such data.

Considerations required by professional standards

Fraud risk of 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 2016/17* 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.

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.

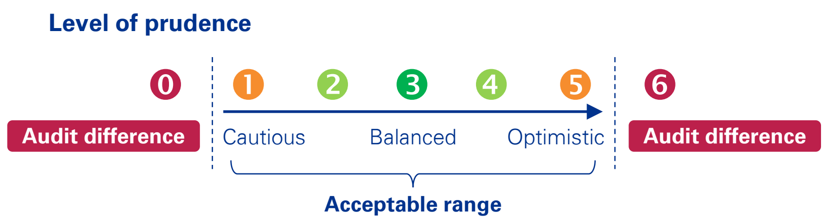
Other areas of audit focus

We identified 2 areas of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. 2016 CIPFA Code on PCC/CC Accounting	**Background** The new Code includes a small number of important changes on the previous year's reporting requirements. The changes include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, and the introduction of a new Expenditure and Funding Analysis as a result of CIPFA's 'Telling the Story' review of the presentation of PCC/CC financial statements. **What we have done** We have reviewed the restatement of the CIES, and have identified a number of differences between stated and expected, particularly around changes in the "Net cost of Services" figures. These differences have now been resolved.
2. Assurance over regional collaboration accounts and transactions	**Background** The level of collaborative work with other forces across the East Midlands has increased significantly over the past few years, with the previous accounts including some £7.7m of expenditure in relation to these arrangements. This level of collaboration brings with it the need to ensure that appropriate governance arrangements are in place for each arrangement and that the necessary assurances are held over the completeness and accuracy of the financial information being provided to the PCC and CC for consolidation into their accounts. **What we have done** Obtain individual JCO accounts and ensure the following: • The percentage split of costs for Northamptonshire used to compile the disclosure agrees to the individual JCO accounts • Agree all bottom line figures from each set of accounts to the summary working paper used by Northants to compile the disclosure - obtain explanations for significant • For all accounts agree all figures to the summary accounts from lead providers; and • Ensure all casting/formulas used in the summary wp's are reasonable, complete and accurate. We have identified a number of differences between the figures disclosed in the accounts and our expectation (based on the work performed above). We have communicated these differences to management, and have resolved the differences.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding NDR)	3	3	We have not identified any issues with the compilation of provision estimates.
Accruals de minimis level	3	3	We have not identified any issues with accruals.
PPE: Asset lives	3	3	We have reviewed the valuer's certificate, including consideration and challenge of the asset lives used for Property, Plant and Equipment. We have not identified any issues with the asset lives utilised.
Pensions	2	3	The pension deficit within the funded LGPS has increased over the year by £15.9m. Our Actuarial team has reviewed the assumptions that make up this calculation, and have noted that assumptions are within the expected range.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the PCC, CC and Group financial statements following approval of the Statement of Accounts.

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 more information on materiality) level for this year's audit was set at £2.8m. Audit differences below £140k are not considered significant.

We have identified one significant audit difference to date – namely the reversal of a Prior Period Adjustment posted to the 2016/17 accounts relating to the transfer of assets from CC to PCC. This adjustment can be seen in the changes in movement on the CC and PCC General Fund below.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Movements on the Group general fund 2016/17

£m	Pre-audit	Post-audit
(Surplus) on the provision of services	30,716	30,717
Adjustments between accounting basis and funding basis under Regulations	(24,266)	(24,266)
Transfers to earmarked reserves	(5,566)	(5,566)
Increase in General Fund	**884**	**884**

Group Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit
Property, plant and equipment	58,186	58,186
Other long term assets	4,277	4,277
Current assets	26,415	26,415
Current liabilities	(20,568)	(20,568)
Long term liabilities	(1,313,072)	(1,313,072)
Net Assets	**(1,244,762)**	**(1,244,762)**
General Fund	3,502	3,520
Other usable reserves	6,815	6,815
Unusable reserves	(1,255,097)	(1,255,097)
Total reserves	**(1,244,762)**	**(1,244,762)**

Movements on the CC general fund 2016/17

£m	Pre-audit	Post-audit
(Surplus) on the provision of services	31,734	48,098
Adjustments between accounting basis and funding basis under Regulations	(31,734)	(48,098)
Transfers to earmarked reserves	-	-
Increase in General Fund	**0**	**0**

Movements on the PCC general fund 2016/17

£m	Pre-audit	Post-audit
(Surplus) on the provision of services	(1,018)	(17,382)
Adjustments between accounting basis and funding basis under Regulations	7,468	23,832
Transfers to earmarked reserves	(5,566)	(5,566)
Increase in General Fund	**884**	**884**

CC Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit
Property, plant and equipment	0	0
Other long term assets	0	0
Current assets	0	0
Current liabilities	(2,032)	(2,032)
Long term liabilities	(1,309,869)	(1,309,869)
Net Assets	**(1,311,901)**	**(1,311,901)**
General Fund	0	0
Other usable reserves	0	0
Unusable reserves	(1,311,901)	(1,311,901)
Total reserves	**(1,311,901)**	**(1,311,901)**

PCC Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit
Property, plant and equipment	58,186	58,186
Other long term assets	4,277	4,277
Current assets	26,414	26,414
Current liabilities	(18,536)	(18,536)
Long term liabilities	(3,203)	(3,203)
Net Assets	**67,138**	**67,138**
General Fund	3,520	3,520
Other usable reserves	6,815	6,815
Unusable reserves	56,803	56,803
Total reserves	**67,138**	**67,138**

Annual governance statement

We have reviewed your 2016/17 Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

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

Narrative report

We have reviewed your 2016/17 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 2016/17 Annual Report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Accounts production and audit process

Our 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

A draft set of accounts were prepared and ready for us prior to the beginning of our year end site visit.

Completeness of draft accounts

We received a complete set of draft accounts at the June Joint Internal Audit Committee, which was in advance of the statutory deadline of the 30th of June.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* (“Prepared by Client” request) in which outlines our documentation request. This helps Management to provide audit evidence in line with our expectations.

We noted a significant improvement in the quality and relevance of the working papers over the previous year, however, we did still note a number of pieces of missing audit evidence, particularly around payroll, and we have still struggled to reconcile the ledger to

Response to audit queries

Officers dealt with our audit queries proactively, although at the time of writing there are still a number of outstanding items on the query log. We would bring the Committee's attention to the PPA issue already raised.

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

At the June JIAC we reported that there were a minor control issues relating to approval of overtime, and authorisation of journals. These have been reported in our recommendation section in detail.

Prior year recommendations

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

The Authority has implemented some of the recommendations, although we have still noted issues with the production of the accounts (although significant improvements have been made) and the identification of related parties.

Appendix 2 provides further details.

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Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 the PCC, CC and Group for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the PCC, CC and Group, 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 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Audit 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 judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

We have included these matters throughout this report.

Section two

Value for money

- Our 2016/17 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 made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, except for in relation to the decisions around the sale of Force Headquarters.

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.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Budgetary Pressures	✓	✓	✓
2. Force Headquarters (not included in plan)	✗	✓	✓
Overall summary	✗	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, except for in relation to decisions made surrounding the sale of Force Headquarters. We therefore expect to qualify our VFM opinion.

Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In one case 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.

Significant VFM risks	Work performed
1. Budgetary Pressures	**Why is this a risk?** In accordance with the Medium Term Financial Strategy (MTFS) for the 5 year period to 2021/22, it is forecast that there will be a funding gap of £3.869m for 2017/18 and a further £11.523m over the period 2018/19 to 2021/22.The group is expected to be making deficits in all of the next 5 years. This increases the risk of failure to deliver savings and demonstrate achievement of operational performance targets. The latest forecast for the 2016/17 revenue budget identifies an overspend of £1.6m for the CC. After allowing for the use of carry forwards and reserves this forecast overspend is reduced to £0.803m and unless savings are identified in the remainder of the financial year additional contributions may be needed from reserves. **Summary of our work** Like most of local government, Northamptonshire Police faces a challenging future driven by funding reductions and an increase in demand for services. Whilst the Authority has had a challenging financial year, we have reviewed the financial budgets going forward, as well as the position to date in 2017/18, and noted that the Police are currently showing an underspend against budget of £0.194m, and a year end forecast of £0.99m.
2. Sale of Force Headquarters	**Why is this a risk?** In 2016/17, the Force made the decision to, and then subsequently reversed the decision to sell Force Headquarters. **Summary of our work** On 11 May 2016, the Police and Crime Commissioner approved a decision to sell Wooton 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 Headquarter's had not been fully costed; • 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 Wooton Hall.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of issues. 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 will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — 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.

Medium priority — 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.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Number raised
High	1
Medium	0
Low	2
Total	**3**

- Appendix 1

High priority	**1. Accounts production** While we have noted that the Finance team have made significant strides in their accounts production process, providing a draft set of accounts to us prior to the start of the audit, we unfortunately noted a significant issue in the production process, with a Prior Period Adjustment being processed, without formal confirmation of this process 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.	**Management Response** [Accepted/Not accepted] [TBC] **Owner** [TBC] **Deadline** [TBC]
Low priority	**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.	**Management Response** [Accepted/Not accepted] [TBC] **Owner** [TBC] **Deadline** [TBC]
Low priority	**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.	**Management Response** [Accepted/Not accepted] [TBC] **Owner** [TBC] **Deadline** [TBC]

Follow-up of prior year recommendations

In the previous year, we raised four recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	2	0	**2**
Medium	2	2	**0**
Low	0	0	**0**
Total	**4**	**2**	**2**

High priority

1. Financial Statements

Findings

The PCC and CC Financial Statements were prepared by the respective S151 by the deadline of the 30 June 2016. A quality review of the Financial Statements was not undertaken until after these accounts had been prepared for audit. This resulted in several changes to the Financial Statements prepared for audit after submission by the respective S151 Officers.

Recommendation

The S151 Officers should ensure that a quality review of the PCC and CC accounts are undertaken ahead of the accounts being presented for audit.

Management original response

Due to the ongoing review of the financial statements by the finance team a full review of the financial statements was not completed by the statutory filing deadline of 30th June 2016. A more detailed review of the accounts was undertaken for the 2015/16 accounts following the difficulties encountered with the 2014/15 accounts preparation and audit. There were complex issues unresolved as at the 30th June 2016 and both s.151 officers were made aware of these and the potential impact on the draft accounts. We engaged with our external auditors in communicating that there would be a possible change to the accounts prior to the external audit commencing.

At the commencement of the audit on the 11th July 2016 amendments to the draft accounts filed on the 30th June 2016 were explained to the external audit team. It is anticipated with the improved internal review processes implemented that the accounts for 2016/17 will be able to be reviewed in advance of the 30th June 2017 deadline for draft publication.

	(continued)	**(continued)** **KPMG's Assessment** Partially implemented Whilst we recognise that management have put a significant effort into the accounts process this year, including investment in the BRB system, we have identified a number of issues in the accounts production process, not including the issue raised above relating to the Prior Period Adjustment.
Medium priority	**2. Strategic Alliance** **Findings** The final business case was not completed in March 2016 but was considered by representatives of the three forces in June 2016. This resulted in agreement to pursue Tri Force Collaborations in certain aspects of the Strategic Alliance agenda rather than full adoption. **Recommendation** The PCC and CC will need to review the impact this will have on the delivery of services, the delivery of the Medium Term Financial	**Management original response** There is no short term impact on the delivery of services as a result of the Strategic Alliance becoming a Tri-Force collaboration.The MTFS is due to be completed by the 30th November 2016 and will be the joint responsibility of the force and OPCC finance teams. **KPMG's Assessment** Fully implemented
High priority	**3. Related Party Transactions** **Findings** The governance processes used to identify and capture related party transactions did not identify all the related party transactions during the year. A payment was made to an organisation where the PCC Chief Executive Officer had declared an interest as a Director. **Recommendation** The PCC and CC should review the governance process for the capture and reporting of related parties on signed hard copy records. When the accounts are compiled a check against payments made to related parties should be undertaken and disclosed within the financial statements.	**Management original response** A detailed register holding information is kept by each responsible officer. The disclosure omission was an oversight and the process for reporting any related party disclosures has been reviewed to ensure that this does not happen in the future. **KPMG's Assessment** Partially implemented Whilst the process for identifying and disclosing related parties have improved, we still identified one related party (the University of Northampton) that was not originally disclosed.

Medium priority

4. Creditors

Findings

Balances totalling £124k were included relating to prior years. These had not been subject to review to show that they are still valid amounts due.

Recommendation

The PCC and CC should review the Creditor balance and remove any balances that are not valid creditors prior

Management original response

It is agreed that there should be a process to ensure that all balance sheet accounts should be reviewed more frequently. The OPCC finance team will work with the force finance team to ensure that a formal process to review all balance sheet accounts is implemented by the 31st December 2016. The £124k creditor that was outstanding as at the 31st March 2016 will be reviewed as part of this process and written off if no longer applicable.

KPMG's Assessment

Fully implemented

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 2016/17 draft financial statements, and are currently being clarified and resolved. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Northamptonshire Police's financial statements for the year ended 31 March 2017. We have confirmed that these adjustments have been made

Table 1: Adjusted audit differences (opening balances) (CC) (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr PPE 10,759 Dr Intangible Assets 5,605		Cr Capital Adjustment Account (16,364)	Being the reversal of the prior period adjustment to move the Operational assets from the CC to the PCC
	-	-	**16,364**	-	**(16,364)**	-

Table 1: Adjusted audit differences (opening balances) (PCC) (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
2			Cr PPE 10,759 Cr Intangible Assets 5,605		Dr Capital Adjustment Account (16,364)	Being the reversal of the prior period adjustment to move the Operational assets from the CC to the PCC
	-	-	**16,364**	-	**(16,364)**	-

- Appendix 3

Table 1: Adjusted audit differences (adjusted in year differences) (CC) (£'000)						
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
3	Dr Exceptional Item 16,364	Cr Capital Adjustment Account (16,364)	Cr PPE 10,759 Cr Intangible Assets 5,605		Dr General Fund Balance (16,364)	Being the transfer of Operational assets from the CC to the PCC
	16,364	**(16,364)**	**(16,364)**	**-**	**16,364**	**-**

Table 1: Adjusted audit differences (opening balances) (PCC) (£'000)						
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
2	Cr Exceptional Item 16,364	Dr Capital Adjustment Account 16,364	Dr PPE 10,759 Dr Intangible Assets 5,605		Cr General Fund Balance (16,364)	Being the transfer of Operational assets from the CC to the PCC
	(16,364	**16,364**	**16,364**	**-**	**16,364**	**-**

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in January 2017.

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/Name of the Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.14 million for you.

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.

Declaration of independence and objectivity

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

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

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

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Northamptonshire PCC, CC and Group Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Northamptonshire PCC, CC and Group, 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.

Non-audit work and independence

We have not performed any non-audit work in the financial year 2016-17.

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