

**NORTHAMPTON BOROUGH COUNCIL
AUDIT COMMITTEE**

Your attendance is requested at a meeting to be held in the
The Guildhall, St. Giles Square, Northampton, NN1 1DE.
on Monday, 6 March 2017
at 6:00 pm.

**D Kennedy
Chief Executive**

AGENDA

1. APOLOGIES

Please contact Democratic Services on 01604 837722 or democratic_services@northampton.gov.uk when submitting apologies for absence.

2. MINUTES

3. DEPUTATIONS / PUBLIC ADDRESSES

4. DECLARATIONS OF INTEREST

5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

6. GOVERNANCE ACTION PLAN - UPDATE

(Copy Herewith)

7. ISA260 RECOMMENDATIONS - UPDATE

(Copy Herewith)

8. FINANCIAL MONITORING REPORT

(Copy Herewith)

9. POSITION STATEMENT ON VACANT POSTS AND INTERIM/AGENCY STAFF

(Copy Herewith)

10. CORPORATE DEBT - PROGRESS AND AGE DEBT ANALYSIS

(Copy Herewith)

11. ACCOUNTING POLICIES AND STATEMENT OF ACCOUNTS CHANGES

(Copy Herewith)

12. INTERNAL AUDIT (LGSS) PROGRESS UPDATE

(Copy Herewith)

13. INTERNAL AUDIT (PWC) UPDATE REPORT

(Copy Herewith)

14. KPMG - EXTERNAL AUDIT 2016/17 PLAN AND UPDATE

(Copy Herewith)

15. EXCLUSION OF PUBLIC AND PRESS

THE CHAIR TO MOVE:

“THAT THE PUBLIC AND PRESS BE EXCLUDED FROM THE REMAINDER OF THE MEETING ON THE GROUNDS THAT THERE IS LIKELY TO BE DISCLOSURE TO THEM OF SUCH CATEGORIES OF EXEMPT INFORMATION AS DEFINED BY SECTION 100(1) OF THE LOCAL GOVERNMENT ACT 1972 AS LISTED AGAINST SUCH ITEMS OF BUSINESS BY REFERENCE TO THE APPROPRIATE PARAGRAPH OF SCHEDULE 12A TO SUCH ACT.”

Public Participation

Members of the public may address the Committee on any non-procedural matter listed on this agenda. Addresses shall not last longer than three minutes. Committee members may then ask questions of the speaker. No prior notice is required prior to the commencement of the meeting of a request to address the Committee.

Agenda Item 2

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 16 January 2017

PRESENT: Councillor M Markham (Chair); Councillor Golby (Deputy Chair);
Councillors Chunga, J Hill, Marriott, Stone and Parekh

1. APOLOGIES

There were none.

2. MINUTES

The Minutes of the meeting held on the 14th November 2016 were confirmed and signed by the Chair. With an amendment to the minutes of the meeting held on the 5th December 2016, whereby the Chair had submitted his apologies and the meeting had been chaired by Cllr Golby (Deputy Chair) the minutes were agreed and signed by the Chair.

3. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

4. DECLARATIONS OF INTEREST

There were none.

**5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES
THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED**

There were none.

6. INTERIMS AND VACANCIES UPDATE

The Chief Finance Officer elaborated on the report of the Position Statement on Vacant Posts and Interim/Agency Staff and noted that it had been commissioned in March 2016 following queries raised at Audit Committee. He highlighted the downwards trajectory in the number of interim/agency staff engaged between February and November 2016 from 39 to 27. He further reported that the number of staff vacancies had decreased from 52 to 41 and noted that the financial costs of the interim/agency staff would be collated for the period to the end of December 2016 and reported to the next Audit Committee.

In response to questions asked by the Committee, it was confirmed that some of the interims employed in the Regeneration, Enterprise and Planning Directorate were recruited for project specific purposes and that this had been a necessity to ensure that the Council had the correct skills to deliver and progress on a number of major projects. The Chief Finance Officer confirmed that the number of interims/agency staff recruited to specific projects would be measured and reported to a future Committee to make some of the figures more meaningful.

Responding to further questions from the Committee, the Chief Finance Officer explained that there no benchmarks in place to measure interims/agency staff; he further explained that retention and promotion of staff from within was a discussion topic at Management Board but that in some instances it was difficult to recruit to some positions and therefore interims and agency provided a valuable service.

RESOLVED:

That the contents of the finance report be considered.

7. GOVERNANCE ACTION PLAN - UPDATE

The Chief Executive outlined the report and updated the Committee on the progress made with the Governance Action Plan. Since the Committee endorsed the Governance Action Plan it was noted that there had been very limited time but that extensive progress had been made which included;

- a) The establishment of an Executive Programme Board
- b) The implementation of a new Cabinet Clearance process
- c) The formation of a Corporate Governance and Support Officer Programme Board.

The Leader confirmed that there had been a lot of focus on Governance and that whilst the Action Plan was a live and fluid document, it was not life limited and continued to explain that whilst risks may have been approached with more caution, there was a balance between total risk aversion and calculated risks. The Chief Executive noted that the risk appetite of the council had significantly changed since 2013 and explained that the Council focused less on taking big risks and more on taking calculated risks that were based on research and well managed. He further explained that the Governance Action Plan also encompassed cultural changes to how loans would be dealt with in future and that whilst there may be additional costs in terms of resourcing, it was considered a necessity.

RESOLVED:

1. That the progress against the Governance Action Plan be noted.

8. ISA260 ACTION PLAN UPDATE

The Interim Strategic Finance Manager explained that the ISA260 action plan included 41 separate actions, with the 9 recommendations from the 2015/16 ISA260 and audit letter, and 2 recommendations brought forward from 2014/15. He explained that significant progress had been made and 27 of the actions have now been completed, with 4 outstanding. He stated that the response and progress against the ISA260 had been completed very quickly and that it was hoped that all of the actions outstanding would be completed in due course.

The External Auditor, in response to questions asked, confirmed that they were happy with the progress that had been made and the achievements of the Council so far

RESOLVED:

That the progress achieved to date be noted against the action plan developed by the statutory S151 Chief Finance Officer (CFO) to make improvements in line with the 2015/16 ISA260 Recommendations

9. TREASURY MANAGEMENT MID YEAR REPORT 2016-17

The Principal accountant explained that the average rate of interest on investments to 30 September was 0.8% (0.52% above the 7 day LIBID benchmark). He explained that the average rate was likely to reduce further by the end of the year as investments are replaced. It was noted that the Debt Financing Budget was currently showing a £370k saving. This was due to:

- i) Lower recharges to the General Fund as a result of lower than expected opening balances and lower average rates of interest.

- ii) A lower than budgeted set aside for outstanding borrowing. (Actual is based on previous year's activity level).

He explained that the Treasury Management function had kept within the approved policies and practices in the year to date and noted that there had been no reported breaches. There has been no requirement to ask Council for adjustments to any indicators or parameters during the financial year.

He explained that there had been training for Members which had been delivered in October 2016 by the Council's Treasury Management advisors. Which he noted would be repeated in future financial years.

In response to questions asked, the Chief Finance Officer explained that advice was being sought on entering into other investments and noted that there needed to be cautious as whilst some investments could provide extra uplift in terms of interest rates, they may result in further risks as capital could go up or down. It was noted that in house investment returns received of 0.77% was achieved which compared favourably to the benchmarks. Responding to a further question, the Chief Finance Officer explained that the loan from the Homes and Community Agency was very old and had duration of 49 years, that the Council had no option other than to wait for it to mature.

RESOLVED:

That the Audit Committee reviewed the Treasury Management Mid-Year Report for 2016-17.

10. FINANCE REPORT

The Chief Finance Officer presented a report to Committee which outlined the financial position to 30th September 2016 and car parking income and usage to 30th November 2016. It was explained that there had been an increased spend on temporary accommodation and B & B provisions as there had been increased pressures in those areas which had put big pressures on budget costs. It was noted that there had been a small underspend of £306k on the HRA. £2 million had been vired from the Revenue Voids Management Budget to the HRA Capital Programme to help fund a programme of additional units and help to ensure that the Council fully utilised the retained 141 Right to Buy receipts that it currently held.

In response to questions asked, the Chief Finance Officer explained that he would provide the Committee with accurate details in relation to Disabled Facilities Grant and the carry forward of £400k.

The Chair noted that the problem of increased costs for the provision of B & B's and temporary accommodation was a national problem and work was being undertaken with Northampton Partnership Homes (NPH) and the Social Lettings Agency to reduce the numbers. She further reported that when the Decent Homes standards had been introduced to Council owned homes, a number of them had been adapted but that there was more of a general need than there was for purpose built (adapted) homes.

RESOLVED:

1. That the contents of the following finance reports be noted:
 - General Fund Revenue Monitoring (Appendix 1 of the report);
 - General Fund Capital Monitoring (Appendix 2 of the report);

- HRA Revenue Monitoring (Appendix 3 of the report);
 - HRA Capital Monitoring (Appendix 4 of the report).
2. That the position on car parking income and usage as at 30 November (Appendix 5 of the report) be noted.

11. RISK REVIEW OF 2017/18 BUDGET REPORT

The Chief Finance Officer presented a report which outlined the risk assessment of the budget proposals for 2017/18. He explained that a balanced budget had been achieved through the Council's prudent financial management and continued commitment to delivering efficiency savings. It was noted that the key financial challenge that the Council faced was the forecast budget gap, which showed a requirement to make a saving of £4.8 million in 2018/19 and £7.0 million in 2020/21.

In response to questions asked, the Chief Finance Officer explained that whilst some modelling could be looked at, it would be hard to predict any changes the government might make, especially with regards to New Homes Bonus. He further noted that with regards to the Council's efficiency plan, there were a number of approaches being explored and active projects that had the potential to deliver extra funds to the Council.

RESOLVED:

1. That issues in relation to risk within the budget proposals for 2017/18 be noted.

12. DEBT MANAGEMENT REPORT

The Revenues Manager presented a report on the position regarding the Council's outstanding debt and noted that pensioners were 100% protected from paying Council Tax and that they would remain exempt from doing so. It was noted that the overall outstanding arrears had increased by £776K compared to the same point as late year and noted that the majority of unmanaged debt within the Council sat within the Asset Management. It was explained that Welfare reform had increased pressures on those liable to pay Council Tax. The Council tax reduction Scheme (CTRS) was the support provided towards the Council Tax for those residents who were on a low income. It was reported that the Revenue Team had worked hard to minimise cuts and had done extensive work to examine longer-term modelling and that the demand of CTS would be re-examined in 18 months' time.

RESOLVED:

1. That the latest position in relation to the Council's outstanding debts as at 30 November 2016 be noted.

13. LGSS INTERNAL AUDIT UPDATE

The Internal Auditor (LGSS) reported that 16 of the 17 actions, agreed following the 2015-16 audits, had been satisfactorily addressed and closed. It was noted that a meeting had been held in December 2016 and another had been timetabled for February 2017 to include the external auditors (KPMG). He commented that the work undertaken would be reported back to the Committee over the next 2 meetings.

The Committee discussed the report.

RESOLVED:

That the Committee noted the report.

14. PWC INTERNAL AUDIT UPDATE

The internal auditor updated the Committee on the current progress of internal audit work. It was noted that there had very recently been a meeting held with the Chief Executive, the Monitoring Officer and Chief Finance Officers to decipher what work would be undertaken in relation to the Governance Action Plan and the internal auditors work plan.

In response to questions asked, the internal auditor confirmed that they had been heavily involved in the governance Action Plan and noted the confidence that they had in the proposed improvements.

The Chair thanked the Internal and External Auditors for the work that they had completed and for the help and assistance given to officers. She reported that solid foundations had been laid and noted they could advance and monitor all potential risks in the future.

RESOLVED:

That the Committee noted the report.

The meeting concluded at 7:47pm

Appendices
1



AUDIT COMMITTEE REPORT

Report Title	Governance Action Plan – Progress Update
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date: 6th March 2017

Policy Document: No

Directorate: Chief Executive, Borough Secretary and Chief Finance Officer

Accountable Cabinet Member: Leader of the Council

1. Purpose

To provide Audit Committee with an update on actions taken to date to implement the Governance Action Plan considered and approved by Audit Committee at its meeting on 5th December 2016 and any broader governance issues arising.

2. Recommendations

Audit Committee is recommended to:

- 2.1 Note the progress against the Governance Action Plan.
- 2.2 Consider the actions taken to date and to provide guidance to Officers on any areas of the Governance Action Plan they would require further action or prioritisation.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Audit Committee received an update report on the Governance Action Plan at its meeting on 16th January 2016.
- 3.1.2 This report provides an update to Audit Committee on actions from 16th January 2016 to date against the Governance Action Plan.

3.2 Issues

- 3.2.1 The new broad governance architecture and arrangements outlined to Audit Committee on 5th December 2016 are operational and are embedding well. This report picks out the key areas of activity and improvements.

The following section outlines progress to date in establishing this structure.

Executive Programme Board

- 3.2.2 The Executive Programme Board has been operational. By the date of this meeting the Board will have met 11 times and is working well as a forum for early consideration of key issues, many at the formative stage of development.

Corporate Governance and Support Board

- 3.2.3 This Board's role is to drive the actions arising from the Governance Action Plan specifically and to consider broader governance issues requiring consideration and action. This Board will have met 6 times by the date of this meeting, has agreed terms of reference and currently meets every 3 weeks. This Board has strengthened its membership and is now supported by Heads of Service from each directorate and other key Officers.

Efficiency & Medium Term Finance Board and People & Transformation Board

- 3.2.4 These two Boards have been established and have commenced work. Further details on these Boards work will be brought to the next Audit Committee meeting.

Risk Management – Priority 1

- 3.2.5 The policy and procedure index has now been compiled. Directors are prioritising the review schedule for the policies. Review of all out of date policies will be completed by end of March 2017. As these are reviewed they will be saved on the intranet for general access. The review cycle for policies will be taken to Management Board on 6th April 2017. Policies will clearly state the review cycle. All HR policies are to be reviewed by an external specialist due to the importance of and quantity of policies to be reviewed.
- 3.2.6 Risk Management training for key officers and member groups will be delivered by a specialist provider. Officers are currently in the process of sourcing this support.
- 3.2.7 Risk reporting is being reviewed, ensuring that there is an effective cascade of information through governance arrangements. External expertise is being sought to review the governance arrangements for risk management from Service through to Corporate level. Details will be included within the risk

policy. The final risk policy is awaiting sign off and will be uploaded to the intranet as soon as possible.

Due Diligence – Priority 2

- 3.2.8 The loans checklist has been reviewed by both PwC, Legal Services and LGSS Internal Auditors and their feedback has been incorporated in the revised checklist. This will enable a review of all the existing third party loans against the revised checklist before the end of the financial year.
- 3.2.9 Existing loans to third parties are now subject to enhanced monitoring by the council's treasury management team to ensure that where possible any issues that may affect future repayments are identified early so that mitigating actions can be taken.

Project and Programme Support – Priority 3

- 3.2.10 Officers are in the process of recruiting an interim Governance and Risk Manager and interviews are expected in the week commencing 27th February 2017. This is a key role and it will act as a focus for key aspects of the Governance Action Plan. In addition recruitment for a permanent holder of this role is underway.
- 3.2.11 The Corporate Programme Delivery Manager and the Programme Delivery Officer transferred to NBC from LGSS on 1st February 2017. These two staff now form part of the Borough Secretary's Division and will report directly to the Governance and Risk Manager once appointed. The relevant staff have been tasked with mapping all projects and programmes currently live within the authority against which governance standards and risk management will be measured, with the specific aim of raising project and programme standards and providing the Council with project and programme assurance.

Licence to Practice Training Programme

- 3.2.12 In order to comply with the Governance Action Plan it is essential that Officers of the Council that are authorised to spend money, make any relevant decisions, assess risks, or manage projects, are competent to do so within the relevant regulations and legislation and within their role profile.
- 3.2.13 To enable the Council to have confidence in the above, a needs analysis is partially completed and a robust knowledge and skills based programme will be developed to ensure that standards are met by all. The full, resourced Licence to Practice programme will be reported to Audit Committee at its next meeting.
- 3.2.14 The Governance and Support Board discussed the specific areas of Governance training needed at its meeting on 23rd January 2017. To assist this consideration the Board has also received details from CIPFA on the specialist compliance training CIPFA can provide (see below heading on Good Governance). This is being considered as part of the Licence to Practice.

3.2.15 A comprehensive scheme of training is being developed, which will be tailored according to job role, including the topic areas below. This initial list will further develop and no doubt become more lengthy, detailed and comprehensive. The training will be delivered through a combination of in-house and external resources, including some use of on-line learning where this meets the exacting standards that we need to set for NBC:

- Officer Delegated Decision Making (including identifying the power and, recording of decisions)
- Financial Standing Orders, procedures and regulations including ordering, receipting, invoicing and payment
- Procurement – including Contract Procedure Rules
- People Management including compliance with policies and legislation, including Equalities and Health and Safety
- Corporate Mission, Vision and Values, and Cultural Change
- Corporate Planning and Objective setting
- Employees' Code of Conduct – including declaring interests and declaring gifts and hospitality
- Fiduciary duties.
- Audit – understanding and responding to Audit
- Whistleblowing
- Constitution
- Process leading up to Cabinet – covering Key Decisions, the Executive Decision Notice, the need to give advance notice of intention to hold meeting in private, the use of the exceptions and the limited circumstances in which it will be appropriate to use them, the clearance process
- Report writing requirements (Report writing guide)
- Exempt information/confidential information and background papers
- Risk management – risk registers
- Risk identification, assessment and mitigation
- Project and Performance Management
- Data Protection (but not FOI) and possibly records management (thinking of some of the issues arising from the recent investigations where the need for better record keeping practices has been identified)
- Equalities – the public sector equality duty and EIAs/CIAs
- Human rights – linked to data protection and equalities
- Interface between members and officers:-

A modular training programme will be lead by the Governance & Risk Manager working with the HR Learning and Development function, and such other specialist officers as are required (including particularly Finance, HR and Health and Safety) and all attendees will be required to complete and pass an assessment of learning to receive their accreditation in that module.

3.2.16 Internal and external subject matter experts will be engaged to deliver the modules.

3.2.17 Once accreditation has been achieved attendees will be given authority to complete the relevant duties and make the decisions required of their roles.

Priority 4 - ISA 260

3.2.18 A separate report is on the Audit Committee agenda. In summary of the 41 actions identified, 31 have been completed and all are expected to be completed by the end of April 2017.

Priority 5 – Internal Audit Recommendations

3.2.19 Work is being undertaken by performance and finance staff following discussions with the internal auditors PwC to archive prior year reports where actions are all completed or no longer relevant. The follow up of current actions is being co-ordinated and reviewed by performance staff with PwC also accessing the tracking tool to check on progress. There has been significant work done to update the status of actions with performance staff contacting action owners to provide updates. Access to the system is being reviewed by performance staff as new audit reports are added to ensure that the management actions are allocated to appropriate officers to enable monitoring.

Priority 6- Effective Decisions- Cabinet Clearance

3.2.20 The evaluation period and process for the new arrangements have been reviewed and are also now being actioned. Deadlines are now published on the internet to assist officer on the delivery of training standards requirements. Work has commenced on the delivery of training on Equality Impact Assessments and should be completed no later than by the end of the next quarter.

3.2.21 A report writing Guide has now been completed and issued.

3.2.22 The Borough Secretary and Chief Finance Officer have reviewed and refreshed the clearance process and basic guidelines on cabinet process has been circulated. Requirements for regularly reporting back to cabinet on significant projects has been actioned and is ongoing.

Priority 7- Governance

CIPFA/SOLACE –DELIVERING GOOD GOVERNANCE FRAMEWORK

3.2.23 This framework is broad and encompasses various elements and facets of good governance. The Governance Action Plan commits to applying and testing the Council's current and improved governance arrangements against the framework. External validation of the Council's actions to improve governance and to provide assurance to the tax payer is essential. With this in mind the Governance and Support Board invited CIPFA to its meeting on 11th January 2017 to consider the accreditation services CIPFA provide. An Officer from CIPFA attended the meeting and outlined to the group the accreditation services CIPFA provide. A copy of CIPFA's slides are attached as **appendix 1**. The CIPFA accreditation service picks up the CIPFA/SOLACE framework requirements and benchmarks organisations against the IFAC/CIPFA International Framework: Good Governance in Public Bodies (2014). The Governance and Support Board have now received a proposal from CIPFA for

the various level of Services they provide against the above standard. This ranges from self-assessment to independent assessment against the IFAC Framework. Management Board will consider the proposal at its next available meeting

Priority 8- Financial Governance

3.2.24 Priority 8a

3.2.25 The number and value of retrospective orders continue to be monitored monthly and reported to Management Board as part of the financial dashboard. There has been a significant reduction in both the level and volume over year. The table below provides a comparison:

	April 2016	January 2017
Value of retrospective orders	£6,048k	£80k
Number of retrospective orders	104	54

3.3.26 The reporting of retrospective order is a key part of the financial reporting cycle and there will be continued challenge of any non-compliance which should further reduce retrospective orders

3.3.27 Priority 8b/c/d

As reported in the last update report there are revised forms and processes in place for Reserves Drawdown, Supplementary Estimates and Virements. These are reported monthly to Management Board and also to Cabinet as per the quarterly monitoring report.

In the coming months there will be a continued focus on compliance with the revised forms and processes. This will be reinforced through the Budget Manager training as part of finance training aspect of the Licence to Practice. The documentation for this element of the Licence to Practice has been developed and is currently being reviewed with the other elements of the documentation to ensure consistency and that it is fit for purpose.

3.3.28 Priority 8e

The enhanced governance of the capital programme has been established as part of the budget report approved by Cabinet and then proposed to Council in February. These enhancements have split the programme into two parts. Firstly, the Approved Programme which includes all schemes which are in their delivery stage and secondly, a Development Pool which includes all of those schemes in their feasibility and design stages. To progress from the Development Pool to the Approved Programme each scheme will need to go through a Gateway review process.

The design and implementation of Gateway review process to move capital schemes from Development Pool is in the process of being developed through the Governance Board and Capital programme Board.

3.3.29 Priority 8f

The finance training documents for the Licence to Practice have been scoped out and drafted. Over the next few months they will be finalised and the roll out of finance training to support the Licence to Practice will commence.

Priority 9- Whistleblowing and Miscellaneous

3.2.30 Whistleblowing Issues

3.2.31 The Standards Committee Working Group, composed of members of the Standards Committee supported by Officers has now formulated a draft Work Plan for agreement by the Standards Committee. This Work Plan includes Standards Committee involvement in the refresh of the Council's whistleblowing Policy and Procedure. Officers are currently the process of updating the draft Whistleblowing Policy having received comments and views from the Standards Committee on the policy approach. The Standards Committee Working Group are due to consider the Whistleblowing policy and procedure on 2nd March 2017 ahead of Standards Committee on 20th March 2017. This policy will then follow the normal governance approval process for the Council.

3.2.32 Miscellaneous Governance

3.2.33 The draft Work Plan of the Standards Committee includes the following key ethical governance items:

- Register of Interests and Gifts (Members and Officers) - To consider and review the types of interests that Members and Officers are required to declare; the way such declarations are made and how they are monitored by the Standards Committee.
- Members' Code of Conduct and arrangements for investigating alleged breaches - To review and update, as necessary, the Code of Conduct and Arrangements for investigating alleged breaches
- Organisational Ethics and Culture - To receive an update on the Organisational Change Programme and to comment and input into that Programme into Ethical Conduct Matters.
- Training Strategy - To develop and approve the Training Strategy for all Members of the Council in relation to ethical and governance matters and to include specific training for Members of the Standards Committee. The Work Group is due to consider a draft Training Strategy later this month.
- Communication Strategy - To develop and approve a Communications Strategy to promote the work of the Standards Committee and the importance of ethical governance.

- CIPFA International Framework: Good Governance in the Public Sector - The Committee to receive briefings on the CIPFA International Framework: Good Governance in the Public Sector in so far as it relates to the work of the Standards Committee.

Efficiency & Medium Term Finance Board

3.2.34 The Efficiency and MTF Board, led by the Director of Customers and Communities, is developing its scope and terms of reference. It is working on updates to the Efficiency Plan including an 'away day' with Management Board and other senior officers on 02.03.2017 to determine a final list of deliverable projects for which detailed business cases will be developed.

4. Implications (including financial implications)

4.1 Policy

4.1.1 This report does not of itself change policy. However the actions arising from the implementation of the Governance Action Plan will have policy implications.

4.2 Resources and Risk

4.2.1 None specifically arising from this report. However many of the actions arising from the Governance Action Plan will have financial implications and will be considered on an item to item basis.

4.3 Legal

4.3.1 None specifically from this report, although many of the changes will have specify legal implications which will be considered on an item to item basis.

4.4 Equality

4.4.1 None specifically. However the actions outlined in the Governance Action Plan will be supported by appropriate Equality/Community Impact assessments.

4.5 Consultees (Internal and External)

4.5.1 There has been no separate consultation on this report

4.6 Other Implications

4.6.1 None specifically

5. Background Papers

5.1 Internal Files on Governance Action Plan maintained by the Borough Secretary

David Kennedy, Chief Executive
Francis Fernandes, Borough Secretary
Glenn Hammons, Chief Finance Officer

A journey to governance excellence in Northampton Borough Council

14

Stephen G Mungavin, CIPFA
Wednesday 11 January 2017

Aim of this session

To discuss the practicalities of CIPFA's governance accreditation scheme as potential support for the Council to improve governance to an 'excellent' level.

Good governance in the public sector – a changing environment

- Governance remains high on the agenda
- Rising public expectations
- Increased branding of failures as 'governance' failures
- Greater pressures on Boards & those charged with good governance
- Changing and challenging levels of scrutiny and oversight
- Complex accountability arrangements
- Generally, public bodies are becoming more *Proactive* rather than *Reactive*
- Public bodies can aspire to become 'excellent'

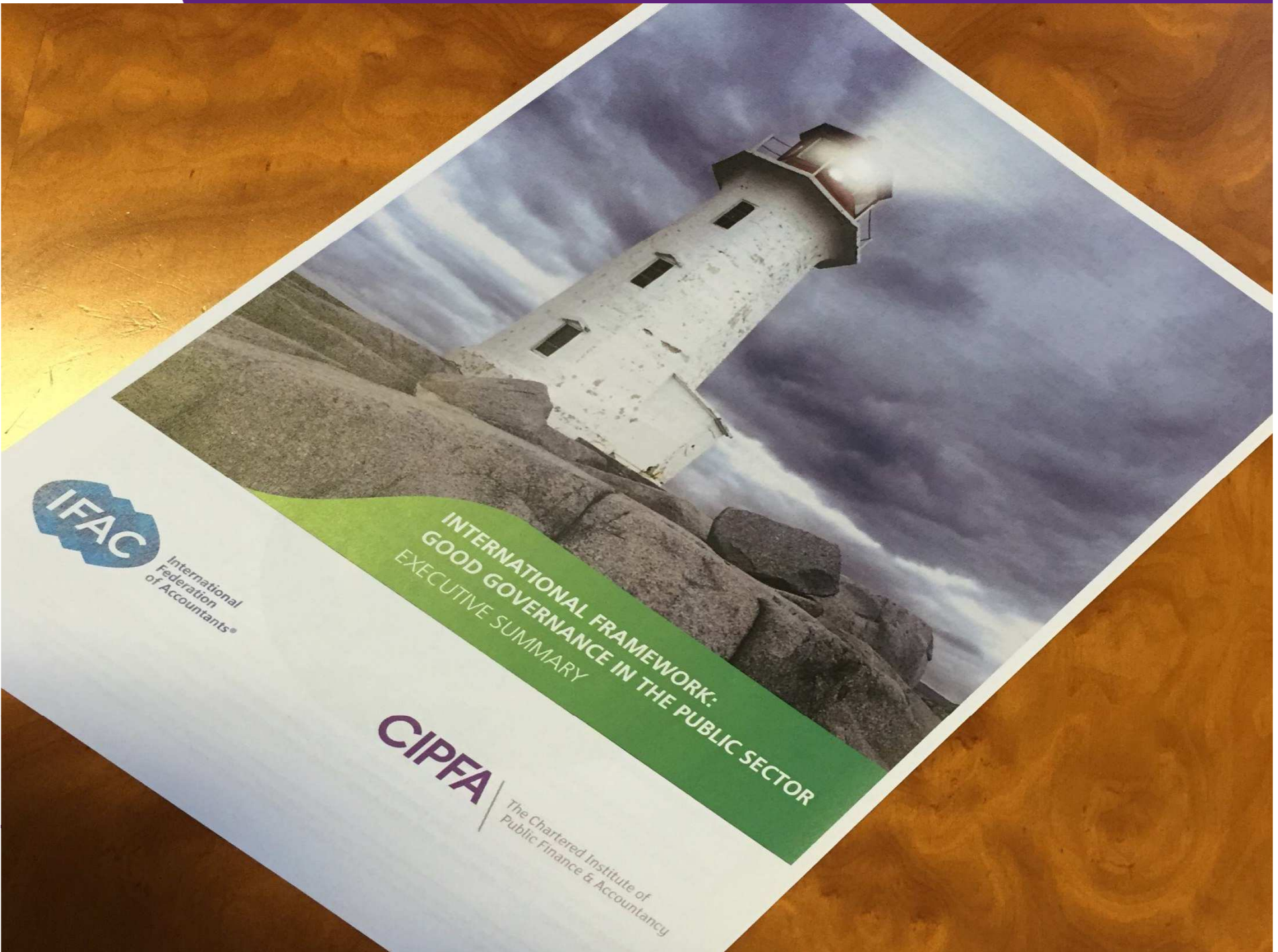
Northampton Borough Council Governance action plan of improvement

- Learned lessons from past experience
- Taking a strategic approach to improvement
- Is proactive and investing resources
- Being led by the Governance & Support Programme Board
- Action plan agreed

Starting point - what does excellent governance look like?

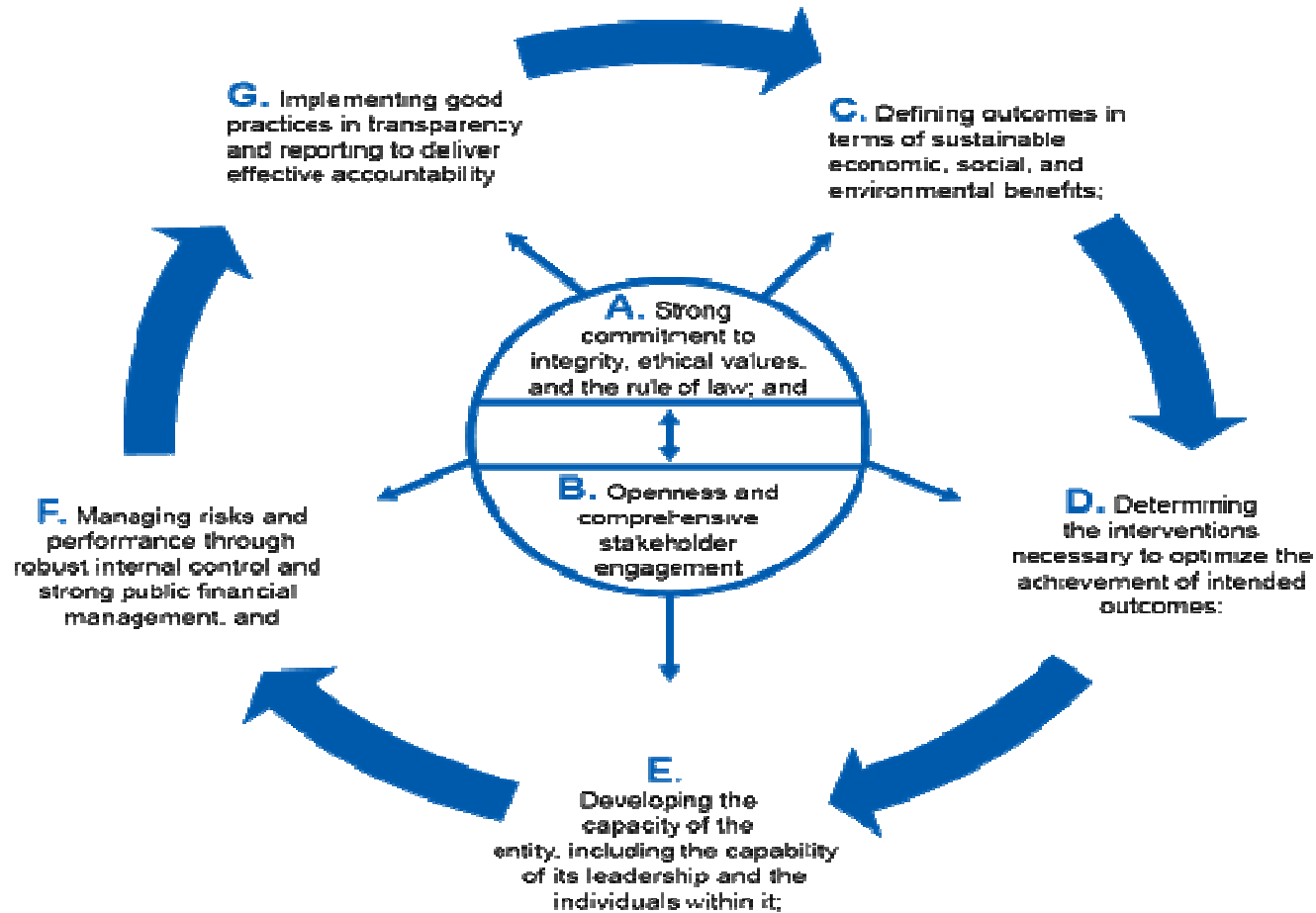
- Lots of generic governance guidance and standards
 - The Good Governance Standard for Public Bodies(2004)
 - Corporate Governance Standard for Central Government Departments
 - FRC UK Corporate Governance Code
 - 'On Board - Principles of Corporate Governance'
 - **CIPFA/IFAC Standards (2014)**

- Lots of specific governance guidance
 - Sectoral guidance (e.g. CIPFA/SOLACE Guide)
 - Codes of conduct
 - MSFM
 - Guidelines on Appointments to Public Bodies
 - Audit Committees
 - From sponsor government department
 - 'It takes two' – PCF & Institute for Government



CIPFA/IFAC Principles

Acting in the Public Interest at all Times



CIPFA's Governance Mark of Excellence

Validated self-assessment check – to get on the starting grid

Advanced assessment:

- Desk research
- Questionnaires
- Interviews
- Analysis, including professional judgement
- Automated scoring of findings
- Conclusions and reporting
- Regular review

Award Nomination



Assessment design and scoring tool

- IFAC/CIPFA Framework
- Weighted assessment criteria (up to 75 criteria)
- Five-point assessment grading (ranging from Fully met to Not met, with three in between)
- Scoring system



Our governance reviews & award – status update

- 2014 - standards published and methodology developed
- 2015 - six pilot assessments undertaken, outcome:
 - 2 start of journey, 2 good, 2 exemplary,
 - methodology refined
- 2016 – carried out 8 governance assessments



What is the incentive –why bother?

- Lighter touch regulation/inspection
- ‘Earned autonomy’ and more strategic freedom
- External recognition
- Demonstration of strong leadership
- Credibility with stakeholders
- Setting a standard for others
(commissioning and ‘whole system’)



Options for the Council

- DIY - self assessment
- Validated self-assessment
- Independent assessment by CIPFA
- Partnership with CIPFA



In summary

- The need for well governed public bodies has never been greater
- Good governance can be identified
- Better to be proactive than reactive
- Accreditation of good governance can move public bodies to a new level of assurance



Appendices 1:

ISA260 Action Plan



AUDIT COMMITTEE REPORT

Report Title	ISA260 2015/16 Action Plan Progress
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 March 2017
Policy Document:	No
Directorate:	Management Board
Accountable Cabinet Member:	Cllr B Eldred

1. Purpose

- 1.1 To inform Audit Committee of the progress against the recommendations raised as part of the External Auditor's 2015/16 ISA260 Report.

2. Recommendations

- 2.1 That the Audit Committee notes the progress achieved to date against the action plan developed by the statutory S151 Chief Finance Officer (CFO) to make improvements in line with the 2015/16 ISA260 Recommendations.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Audit Committee received the annual ISA260 External Auditor report from KPMG at the meeting on 5th September which included a number of recommendations for improvements, and initial responses from management. The 2015/16 annual external auditor letter reported to audit committee on 14th November also included a further recommendation around business appeal provisions.
- 3.1.2 Audit Committee requested from management that a regular report be brought to each subsequent audit committee detailing progress against the audit recommendations.

3.2 Progress against external audit recommendations

3.2.1 The ISA260 action plan included 41 separate actions to deal with the 9 recommendations from the 2015/16 ISA260 and audit letter, and 2 recommendations brought forward from 2014/15. To the end of January significant progress has been made and 29 of the actions have now been completed, with 12 outstanding. The table below is a summary of the progress against each of the recommendations:

KPMG recommendation area	Total actions	Completed	Outstanding
Retrospective orders	6	6	0
Internal Audit coverage and assurance	4	4	0
General IT controls	4	3	1
Controls/processes for issuing loans	6	4	2
Audit working papers	5	3	2
Revaluation of council dwellings	3	2	1
Reconciliations	6	4	2
Accrual levels	1	0	1
Pensions data	1	1	0
Payroll data quality	2	2	0
Business rate appeal provision	3	1	2
Total	41	31	10

3.2.2 Since the audit committee in January 2017 a further 4 actions have been completed.

3.2.3 The 10 outstanding actions include 6 where the target completion date was not until after the end of February 2017. In relation to the 4 outstanding actions which have missed their target date, all actions are still planned to be completed by the end of April 2017 in accordance with the year end timetable requirements.

3.2.4 The action around year end accrual levels is still outstanding. The accrual level review has taken place, with the proposed revision is coming for approval along with the accounting policy review to the March 2017 audit committee.

3.2.5 There are two outstanding actions relating to controls and issues around processing and issuing of loans. The review of existing loans documentation has been done against an early summary checklist, however this is still to be done against the more extensive checklist which has received external review by auditors in February. The review of governance arrangements for issuing loans now forms part of the governance action plan, and will be monitored here from now on. Whilst this is finalised no further loans will be issued.

3.2.6 There is a risk around valuation work carried out by the estates section as there are no permanent full time staff due to a number of vacancies. Management are actively looking to recruit agency staff to carry out the necessary work as several agency staff have left since January, however the lack of continuity poses a risk to the process.

3.2.7 **Appendix 1** includes the detail and progress around all the action plans to address the external audit recommendations.

3.3 Choices (Options)

3.3.1 The Committee are being asked to review the ISA260 action plan and note progress against it.

3.3.2 The Committee could request that following review, amendments are made to the action plan.

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no policy implications arising from this report.

4.2 Resources and Risk

4.2.1 There are no direct financial implications arising from this report.

4.3 Legal

4.3.1 There are no legal implications arising from this report.

4.4 Equality

4.4.1 There are no equality implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 Management Board has been engaged in the production of the management action plan, and have been reviewing it at regular intervals

4.6 Other Implications

4.6.1 There are no other implications arising from this report.

5. Background Papers

5.1 The External Audit ISA260 report presented to Audit Committee on 5th September 2016 and External Audit Annual Audit Letter presented to Audit Committee on 14th November 2016.

Chris Randall, Strategic Finance Business Partner, LGSS, 0776 936 5372

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
30 The Authority should ensure that purchase orders should be raised for the purchasing of goods and services through the purchase order process (where appropriate), prior to the Authority committing itself to the purchase. Reports should be run on a regular basis to identify all non compliance and take appropriate follow up action	LGSS Strategic Finance Manager(s)	Finance will continue to train, liaise with and advise the necessary staff to ensure that retrospective orders continue to be reduced in future.	30th September 2016 and monthly thereafter	Finance business partners have been and continue to engage budget managers in providing information and challenging the numbers and level Reported monthly to management board. Month 6 monitoring shows the position is improving		Completed
	LGSS Finance Business Partner Team	Roll out mandatory training for all appropriate staff involved in order processing and authorising	30th November 2016 and monthly thereafter for new starters	All appropriate staff have been briefed as part of management meetings and individual budget meetings as to the requirement of raising orders in advance. The formal training will form part of the overall governance planning		Completed
	LGSS Head of Business Systems	Explore system options to ensure accountability	30th November 2016	Automatic system report created to email on a weekly basis any staff raising retrospective orders to advise them that this is in contravention of financial regulations		Completed
	LGSS Strategic Finance Manager(s)	Dashboard report to be shared at DMT meetings.	Period 6 monitoring budget monitoring meetings during October 2016	Rolled out as part of period 6 monitoring process		Completed
	LGSS Exchequer Manager	Communicate to all suppliers that the council requires purchase orders to be sent prior to goods / services being delivered	30th November 2016	Communication drafted to suppliers, exchequer team sent out 1.12.16		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
	LGSS Exchequer Manager	Establish and implement a policy and related procedures to deal with emergency expenditure	31st December 2016	LGSS Exchequer Manager has produced an urgent payments protocol by 20.12.16. This was tested with a selection of appropriate NBC staff and published on the intranet in January 2017		Completed
The Authority should ensure that it undertakes a thorough assessment of both internal audit providers annual audit plans for 2015/16 to ensure that appropriate assurance and systems coverage is provided during 2015/16	LGSS Strategic Finance Manager	Regular Joint meetings with LGSS and NBC Internal Audit providers and Strategic Finance Manager to be held in advance of each Audit Committee	30th November 2016	First meeting held 8.09.16, and areas for review agreed. Follow up meeting between LGSS Internal Audit and Chief Finance Officer. Regular joint meetings, scheduled on a quarterly basis starting 7th December 2016		Completed
31	LGSS Strategic Finance Manager	Arrange bi-annual meetings between NBC finance, all internal audit providers and NBC external auditors	30th November 2016	Met with Internal Auditors and agreed best date in timetable to meet with external auditors. Meeting scheduled for 1st Feb 2017		Completed
	LGSS Strategic Finance Manager	Review of Internal Audit Workplans to ensure that risks identified by the 2015/16 External Auditors are appropriately considered / reviewed	30th November 2016	Initial joint meeting reviewed risks identified by External Auditors to discuss coverage within internal audit plans, amended IA plans still to be reviewed. Reports to next Internal Audit Committee on workplans following liaison. Review on 16.11.16 by Strategic Finance Manager and Group Accountant (closure) of Internal Audit plans presented to 14th November 2016 Audit Committee. Confirmed all key areas covered where appropriate, except for asset valuations that will be covered as part of the Interim External Audit.		Completed
	LGSS Strategic Finance Manager	All Internal Audit Providers to ensure regular attendance at Audit Committee to approve and monitor Audit Plans and issues	31st October 2016 and ongoing	Internal Audit providers advised of the requirement for regular monitoring reports for Audit Committee with reports on 14th November Committee		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
Timely leaver forms need to be completed and cascaded to the relevant departments, including to IT. User access to applications needs to be reviewed on a periodic basis. In addition, the departing employee's access rights should be revoked as part of the standard leaving procedures. This process should be co-ordinated between HR and IT.	LGSS Audit and Risk Manager (NBC)	IT – LGSS systems access these need reviewing by LGSS internal audit with in an depth review of the IBS and ICON systems in particular	31st January 2017 31st March 2017	Workplan report by LGSS Internal Audit includes this, with the work timetabled for December / January. Work has commenced on this review but is now not expected to be complete until late February/early March		Outstanding
32	LGSS Audit and Risk Manager (NBC)	Both LGSS internal audit and PwC internal audit to consider systems access in general, and advise NBC CFO on what they suggest is a priority for review / testing during 2016/17.	31st October 2016	14th November Audit Committee - LGSS Internal Audit planned audit work report identifies areas to be undertaken		Completed
	LGSS Business Systems Manager	IBS Housing System - the need for timely leaver forms to be completed and distributed to relevant departments needs to be cascaded to departments	31st August 2016	This requirement has been cascaded to relevant areas by the officer undertaking system administration		Completed
	LGSS Exchequer Team Leader	ICON System - the ICON system administrator to ensure a regular review and disablement of users who have left roles requiring access to the ICON system	31st August 2016	A review of HR leavers information has been incorporated into the monthly processes of the LGSS exchequer manager responsible for ICON system administration		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
33 The Authority should put in place a systematic, robust, and objective process of assessing and documenting the due diligence procedures carried out on loan applicants. This process should be transparent and the due diligence process undertaken by qualified individuals. Any decision will need to be fully documented, including the reasoning and consideration of risks. The process should include a review by a senior officer and this should be evidenced.	NBC Chief Finance Officer	Internal review of all existing loans to assess against recommendations arising in ISA260	30th November 2016 31st January 2017 31st March 2017	Information collated and an initial review has been done of the information. Following recent validation of the checklist in February a further review against it will be undertaken before the end of March		Outstanding
	NBC Chief Finance Officer	Develop and implement a loans framework / checklist	31st December 2016	First draft in completed. Has been informed by meetings with external experts (Council bankers) in November		Completed
	NBC Chief Finance Officer	Meet with external experts to review due diligence approach and checklist	30th November 2016	Meeting occurred with Barclays on 14th November. Checklist amended following meeting		Completed
	NBC Chief Finance Officer	External validation of loans checklist	31st December 2016 31st January 2017	Pwc & LGSS Internal Audit to review first draft which was completed at end of December and available for review during January. Both internal auditors have sent their comments to management during February and they are being considered to revise the checklist where appropriate		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
	NBC Monitoring Officer	Review governance arrangements (decision making, project management, reporting, officer, member, cabinet/council)	TBC	This now forms part of the governance action plan and is being reviewed by the governance programme board to determine most appropriate approach		Outstanding
	NBC Monitoring Officer	Review risk management arrangements	31st December 2016	PwC were commissioned and have completed their review of the strategy and framework (guidance document) and role specification of a new governance and risk manager post. A draft risk management policy and strategy has been presented to management board for consideration		Completed
The Authority should ensure that all key closedown staff receive and review the <i>Accounts Audit Protocol</i> prior to producing working papers for the audit. The overarching principle is working papers should provide a clear and concise audit trail from the financial statements through to sufficient and appropriate evidence within supporting working papers. Working papers need to: — Be clear, with explanations if needed. The working papers need to be written from the view point of someone external to the organisation; and Be supported by strong evidence, for example, third party documentation.	LGSS Strategic Finance Manager	NBC and KPMG post final accounts debrief and action planning meeting (also a joint debrief with LGSS integrated closedown team)	31st October 2016	Debrief sessions arranged between LGSS finance and KPMG for 19th and 21st October 2016		Completed
	LGSS Group Accountant (Integrated Closedown Team)	Implement any agreed actions resulting from debrief meeting	31st December 2016	KPMG have provided the draft 2016/17 PBC (Audit Working Paper Requirements) on 2nd Dec 2016. These have been reviewed for the interim audit work and data analytics requirements, the final audit PBC requirements are to be reviewed as part of the year end timetable process.		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
	LGSS Strategic Finance Manager	Establish and implement key performance requirements for proposed phase 2 integrated closedown team, between expanded LGSS integrated closedown team and NBC finance team	31st December 2016 31st January 2017	The integrated team is now operational and the process for establishing the workload/requirements between the integrated and business partner teams has been finalised in relation to the Interim Audit PBC and is now working on the final audit timetable etc.	Green	Completed
	LGSS Group Accountant (Integrated Closedown Team)	Review 'Prepared by Client' list requirements with KPMG and agree key quality standards prior to commencement of interim audit	31st December 2016 28th February 2017	Draft PBC received on 2nd December and has been reviewed by Intergrated Team for Interim Audit requirements and revisions confirmed by KPMG on 21st December. The final audit part of the PBC will be cross referenced with the closure working papers during January and February. Feedback from KPMG on specific areas needing improvement was requested at the closure review and is yet to be received	Yellow	Outstanding
35	LGSS Group Accountant (Integrated Closedown Team)	Review internal LGSS quality control and assurance process for Statement of Account, WGA working papers by the finance team etc	31st December 2016	LGSS Group Accountant (Integrated Team) has reviewed the QA process and has identified more emphasis is needed on staff responsible for reviewing working papers and supporting evidence	Green	Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
36 The information requested, and provided by the valuer, should meet all the criteria within the Code and provide a clear and concise audit trail relating to the methodology and assumptions used in the valuation process. All evidence should be maintained and made available prior to the start of the audit. The Authority should ensure that it fully fulfils its responsibility to review, challenge and understand the information provided by the valuers as required by guidance.	NBC Corporate Asset Manager	Review and document the revaluation of council dwellings process to ensure they meet the requirements of the code.	31st March 2017	Regular meetings between Estates and Finance are taking place , whereby the valuation process and challenge have been documented. The lack of documentation re the year end impairment exercise was of particular concern to the auditors and this has been agreed to be documented following the same format as the final audit evidence for 2015/16. However this can only be completed after the year end exercise has taken place, and currently the section has no permanent full time staff with several agency staff who have left since January. Management are actively trying to engage more temporary staff, however this poses a significant risk on continuity.		Outstanding
	NBC Corporate Asset Manager	Ensure that Asset Management Team have appropriate capacity and knowledge to undertake valuation work to achieve the closedown timescales - Head of Asset Management	30th November 2016	The update meetings that have been held during October 2016 have confirmed that the timeframes for the valuations will be met, this needs to be regularly reviewed as currently there is a high number of interims within estates, and some of the work is being undertaken by third parties		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
	LGSS Group Accountant (Integrated Closedown Team)	Finance staff to review and challenge both revaluation work and process documentation	30th November 2016	Finance staff have undertaken during October 2016 a challenge on the revaluation work for the revaluation of council dwellings as at 1st April 2016. Asset management have agreed to document their response to this challenge. The documentation to support the year end impairment review exercise for 31st March 2017 reflecting the annual change in property prices will now be provided by asset management in line with the format developed for the 2015/16 final audit by finance.		Completed
The Authority needs to ensure that quality checks are undertaken on all key controls. This should be embedded within the reconciliation process. The Authority should ensure all the issues above are dealt with and that full reconciliations are carried out across all appropriate systems and balances. All unreconciled balances should be identified and cleared, or written-off in a timely manner.	LGSS Payroll Manager	Review and monitor the payroll reconciliations process to ensure reconciliation items are identified and cleared within a timely period	30th September 2016, 31st October 2016 and ongoing	LGSS Business Systems have made a concerted effort since this was raised as part of the ISA260 and of the 99 unreconciled payroll items 37 have now been cleared and corrected. The ongoing reconciliations are now being undertaken monthly by the payroll team who have more complete knowledge to resolve unreconciled items, and make appropriate system corrections. LGSS Business Partner team reviewing reconciliations done by payroll team for December, however final in year corrections and recommendations for prior year balances are still to be presented to management for approval		Outstanding
as above	LGSS Audit and Risk Manager (NBC)	A comprehensive risk assessed payroll systems audit needs to be undertaken by Internal Audit	31st January 2017	The LGSS Internal Audit plan now includes proposals for a payroll audit, including a review of actions on data quality		Completed
as above	PwC - NBC's Internal Auditors	A payroll review to be undertaken by NBC's Internal Auditors post the implementation of the new payroll service provider planned during 2016/17	31st March 2017	LGSS Finance have raised this action with PwC internal audit manager. This is now included in the PwC audit plan for 2016/17 likely March 2017		Outstanding
as above	LGSS Revenues Manager	Ensure that discrepancies between the properties included on the NDR and Valuation Officer reports are identified and corrected in a timely manner	30th September and on going	this is now being done on a regular basis by the LGSS Revenues manager.		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
as above	LGSS Audit and Risk Manager (NBC)	Internal Audit need to review and consider what Revenues system work is included within their Audit Plan for 2016/17 and present to the NBC S151 officer for sign-off	31st October 2016	LGSS Internal Audit have confirmed as part of their proposed audit work for 2016/17 to undertake high level control testing for the three revenues systems. Part of the audit report to the November Audit Committee		Completed
as above	LGSS Accountant (Housing)	Review and improve existing reconciliation process.	31st October 2016	LGSS Finance have reviewed the process, and have incorporated an improvement to the year end working papers to ensure correct year end balances included. This has been done using an additional control check box on the reconciliation spreadsheet		Completed
The Authority should ensure it strengthens its year end cut-off procedures and that controls are sufficiently-robust to ensure correct procedure is followed. The Authority may wish to consider the impact on raising its de minimis level to reduce the manual input required in this process. A review of cut-off is particularly important given the move to a shorter timetable for the accounts process from 2017/18, and the reduced time to produce the financial statements.	LGSS Group Accountant (Integrated Closedown Team)	Undertake a review of de-minimis level and if required amend closedown procedures/guidelines accordingly, communicate to NBC budget managers and liaise with external auditors	30th November 2016 (review), 31st December 2016 (refresh procedures & liaise with external auditors) and 31st January 2017 (communicate to NBC budget managers with closedown guidance) timetable)	Neighbouring district authorities within the County all had accrual levels of £5,000 or above. Following this a comparison of these against the council's accounts has been undertaken (initial data produced 24.11.16, being further reviewed). KPMG have advised that this is a S151 officer/Council decision and Audit Committee approval will be requested in March 2017 alongside other proposed changes to the accounts and policies to comply with the 2016/17 accounting code of practice.		Outstanding
The Authority should review all information provided to the pensions authority on a monthly basis. This should be evidenced via sign-off by a senior individual.	LGSS Strategic Finance Manager	Ensure more a complete reconciliation is done which is then signed off by an appropriate senior manager	30th November 2016	Confirmation from payroll manager and pensions teams that monthly reconciliations being done between payroll reports and transfers to the pension authority, and signed off by the payroll service manager. Where differences are identified these are corrected in the following month		Completed

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
The Authority should investigate instances of data quality issues. In addition, the Authority should investigate all incidences of salary payments to staff after the end dates.	LGSS Payroll Manager	Review findings.	31st August 2016	Management have reviewed the findings and whilst there are no significant issues, processes have already been updated during 2015/16 to address issues around national insurance numbers		Completed
as above	LGSS Payroll Manager	Implement quarterly review of payroll data quality to ensure system information is maintained to an appropriate level of quality.	31st October and on going	Review undertaken and confirmed in December 2016 by Payroll Manager on NI numbers using the government gateway with reports also being reviewed on address info. The task will be passed to the new NBC payroll team from January 2017 as part of the handover		Completed
The Authority should continue to use its own historical data to inform and refine its estimate of its share of liability arising from successful appeals. Notwithstanding whether the Authority decides it should change its provision based on this information, sufficient and appropriate audit evidence should be maintained and provided to evidence the decision process undertaken, as well as management review and sign-off of the final position. The Authority should provide appropriate and sufficient narrative explanations with regards to why the Authority believes that the approach taken is the most appropriate or prudent, especially when there are valuation differences between methodologies.	LGSS Strategic Finance Manager	Ensure that a clear audit trail is maintained to evidence the methodology and approach undertaken to arrive at the appeals provision, and justify this in line with the code (this will form part of the working papers to produce the year end accounts)	30th April 2017	Finance and Revenues staff have been reviewing the appeals data during November/December 2016 to improve estimation methodology. Planned 1st review by the CFO during January 2017 prior to further work		Outstanding
	LGSS Strategic Finance Manager	Engage external support to provide validation of the authority's methodology and approach in estimating its appeals provision	31st December 2016 30th April 2017	Initial external advice has been sought to help inform the methodology of calculation, and following review by the CFO in January further specific external advice may be required		Outstanding

ISA260 Management Action Plan Progress Tracker

KPMG recommendation	Assigned to	Agreed actions	Target Completion/Review Date	Progress to date	Delivery RAG	Status Outstanding / Completed
	LGSS Strategic Finance Manager	Compare and contrast the approach to appeal provisions with other councils to inform best practice	31st December and ongoing	Discussions have taken place at the Northamptonshire Chief Finance Officer and Chief Accountant meetings. Councils in the County have shared their approaches which will be used to inform how NBC continues to develop its methodology in calculating the year end provision		Completed

On track for delivery, substantial progress already made

On track for delivery, some progress made

Concerns on delivery



Appendices: 5



NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Financial Monitoring Report
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 March 2017
Policy Document:	No
Directorate:	Finance Directorate LGSS
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

- 1.1 To present Committee with the financial position to 31 December.
- 1.2 To update Committee on car parking income and usage to 31 January.

2. Recommendations

- 2.1 To consider the contents of the following finance reports:
 - General Fund Revenue Monitoring (**Appendix 1**);
 - General Fund Capital Monitoring (**Appendix 2**);
 - HRA Revenue Monitoring (**Appendix 3**);
 - HRA Capital Monitoring (**Appendix 4**).
- 2.2 To note the position on car parking income and usage to 31 January (**Appendix 5**).
- 2.3 To consider whether Committee requires any additional information in order to fulfil its governance role.

3. Issues and Choices

3.1 Report Background

- 3.1.1 A Finance and Performance report is presented to Cabinet quarterly (including the outturn report).
- 3.1.2 Committee has asked to receive these reports which are brought to the first available meeting following their production.
- 3.1.3 Committee has also asked for more detailed information regarding car parking income and usage, and debt recovery.

3.2 Issues

- 3.2.1 The Council's revenue and capital position as at 31 December 2016 (Period 9) is set out in **Appendices 1-4**.

Significant variances at this point in the year are as follows:

- 3.2.2 General Fund Revenue – (£546k) favourable

Note: for ease of understanding adverse variations (i.e. additional costs or reductions income) are shown without brackets, while favourable variations (increased income or cost savings) are shown within them.

	£000
Controllable Service Budgets	(176)
Debt Financing & HRA Recharges	(370)
Contribution From Reserves	0
General Fund Revenue	(546)

The major variations are detailed below.

3.2.2.1 Asset Management

Asset Management £123k adverse mainly relates to additional temporary staff covering vacant positions and professional services to carry out valuations. Offset by overachievement of NNDR rebates following challenges.

The medium to long term solution for the Asset Management team is currently being developed, with a view to remove the requirement for temporary staff.

3.2.2.2 Head of Planning

Head of Planning (£270k) favourable is due to the higher level of development control income for the whole year offset by a drop in anticipated building control income due to market conditions.

3.2.2.3 Head of Housing and Wellbeing

Head of Housing and Wellbeing £325k adverse is mainly due to additional costs for agency staff in Housing Options and Advice, Home Adaptations and Housing Standards and a reduction in Licensing Income.

- 3.2.2.4 Director of Customers and Communities
Director of Customers and Communities (£656k) favourable reflecting additional deductions made through the Environmental Services Contract and additional car parking and licensing income.
- 3.2.2.5 Corporate
Benefits £260k adverse due to additional costs for Bed and Breakfast and the use of temporary accommodation at County Chambers..
- 3.2.2.6 Corporate Debt Financing
Debt Financing (£370k) favourable due to lower Interest on borrowing and lower MRP charges due to repayment of borrowing on short-life assets during 2015-16 and carry forward of some capital expenditure into 2016-17.
- 3.2.3 HRA Revenue – (£754k) favourable
- 3.2.3.1 The forecast underspend position on the HRA of £754k relates mainly to staff vacancy savings within NPH and lower expenditure on void repairs and the maintenance of communal gas heating systems. In addition, there is a forecast underspend in the Contribution to the Bad Debt Provision (£200k) reflecting lower arrears levels as a result of ongoing management action and the delayed implementation of the Universal Credit Scheme. In line with September Cabinet decision it should be noted that £2m has been vired from the Revenue Voids Management Budget to the HRA Capital Programme to help fund a programme of additional units and help to ensure that the Council fully utilises the retained 141 Right to Buy receipts it currently holds
- 3.2.4 Capital Programme
- 3.2.4.1 The General Fund Capital Programme budget stands at £22.5m, an increase of £600k in the quarter. As at the end of December the forecast expenditure for the year is £17.2m, around £5.3m below the budget for the year. This includes £4.8m forecast carry forwards and £0.5m underspends. The most significant forecast variances are:
- Forecast underspend of £705k on the St Giles Street public realm improvements. The cost of completing these works was less than originally budgeted.
 - Forecast underspend of £425k in relation to Disabled Facilities Grants, due to a decreased level of demand in 2016/17. Demand had stabilised at around £1.45m per year, and this is the level built into the 5 year programme going forward.

- Forecast overspend of £650k on the Delapre restoration project. Full details of the reasons for this overspend were the subject of a report to Cabinet on 8th February 2017. The overspend can be offset by the underspends elsewhere in the programme and as such there is no overall overspend. Nevertheless it is important that full understanding of the reasons for the overspend are understood so that lessons can be learnt for future major projects.
- Forecast carry forward of £2.9m in relation to the Vulcan Works scheme. This revised phasing reflects the changes to the scheme approved by Cabinet in July 2016.
- Forecast carry forward of £1m of works to St Peters Waterside. This is due to continued negotiations with the developer of the site, which will be subject to a detailed Cabinet report in due course.
- Forecast carry forward of £439k on the Central Museum Redevelopment project due to delayed access to the Old Gaol Block

- 3.2.4.2 The latest forecasts for 2016/17 and the significant carry forwards set out above were reflected in the five year capital programme proposed as part of the final budget report to Cabinet on 15th February.
- 3.2.4.3 As part of the 2017/18 budget process enhanced governance of the capital programme is proposed in order to ensure that cost estimates are robust before schemes are commenced. This will include the creation of a “Development Pool” into which schemes will go until the costs and phasing of the scheme is firmed up. This will help to reduce the level of over and underspends and carry forwards in the capital programme.
- 3.2.4.4 The financing of the capital programme assumes that around £5m of capital receipts will be received during 2016/17. It is not now expected that these will all be received in year, although on the assumption that they will be received next year, and given the expected carry forward of expenditure, the existing programme can be funded. This position does however reinforce the need to not add new schemes unless absolutely necessary.
- 3.2.4.5 Any further additions to the capital programme, including further strategic property purchases, will be subject to the development of a robust business case. In line with Financial Regulations, any proposed additions to the programme greater than £250k and/or requiring additional funding from Council resources, will be brought to Cabinet for approval.
- 3.2.4.6 HRA Capital Programme – The approved HRA Capital Programme has been increased by £2m to £38.85m. This increase is as a result of the virement from the HRA Revenue Budget for Voids management. In line with what was reported to September Cabinet this additional capital funding will support schemes that contribute towards the provision of additional social housing as part of the Governments 141 RTB Receipts initiative.

3.2.4.7 141 Right to Buy Receipts

It was reported to September Cabinet that the Council has, since April 2012, been able to retain a proportion of its RTB receipts after signing up to a formal agreement with the DCLG. As at 31 March 2016 the Council had not had to pay over any of the retained receipts but was under increasing pressure to use the balance of receipts within the terms of the agreement. These retained receipts must be spent on re-provision of social housing within 3 years of receipt.

For quarter 2 the Council had to pay back £26k of receipts to the Treasury with interest of £3.7k. For Quarter 3 the Council again is likely to have to pay back some receipts to Treasury, initial draft figures are £39.5k with interest of approximately £6k. The Council is working closely with Northampton Partnership Homes to mitigate the risk of any further retained 141 capital receipts in quarter 4 and future quarters being paid back. Work is continuing to identify and bring forward a mix of RTB Buybacks and schemes that will bring additionality to the HRA stock base, addressing the housing need of the Borough.

- 3.2.4.8 As reported to November Cabinet discussions are still ongoing with the Government on the Local Growth Fund Dallington project around replacing the scheme with a number of smaller schemes to generate the same level of units within a re-phased timeframe. The works will have to be completed by the end of 2017/2018.

3.2.5 Car Parking Income and Usage

- 3.2.5.1 **Appendix 5** shows the monthly levels of car parking usage and income to 31 January.

3.3 **Choices (Options)**

- 3.3.1 None

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 There are no specific policy implications arising from this report.

4.2 Resources and Risk

- 4.2.1 Ongoing monitoring of the Council's budget and capital programme enables early intervention and appropriate remedial action, thus mitigating risks to the Council's financial viability and to its reputation.

4.3 Legal

- 4.3.1 There are no specific legal implications arising from this report.

4.4 Equality

4.4.1 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 None at this stage.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Regular reporting of the Council's financial position helps to ensure the proper stewardship of the Council's resources. Active financial management contributes to the delivery of value for money services, enabling public money to be used to maximum benefit.

4.7 Other Implications

4.7.1 Not applicable

5. Background Papers

None

Glenn Hammons
Chief Finance Officer, Telephone 01604 366521

NB General Fund

Revenue Budget Forecasts 2016/17

December 2016

Key to BRAG where Forecast variance is:

Greater than (£100k)

Between £50k and (£100k)

Between £51k and £100k

Greater than £100k

Division	Ksa	Service Area	Revised Budget £000's	Forecast £000's	Forecast Variance £000's	RAG Status	Notes on Forecast Variances
47	FA01	Asset Management	961	1,103	142	R	Additional temporary staff covering vacant positions and professional services to carry out valuations £121k. Overachievement of NNDR rebates following challenges (£68k). Overspend on repairs and maintenance budget due to upgrade of lights in St Giles Churchyard £5k, increase in need for street nameplate repairs £15k, lift works at Danes Camp and Guildhall £20k and £50k of responsive works including Weston Favell Shopping centre, tree works and tarmac repairs. The latter was a regeneration project.
	FA06	Other Buildings & Land	(1,477)	(1,496)	(18)	G	
Asset Management			(516)	(393)	123	R	
	DR02	Director of Regeneration, Enterprise and Planning	306	272	(34)	G	Underspend mainly due to potential savings on Alive budget £30k and Recharge to EZ of £40k. This has been partially offset by advertising of vacant director post and interim cover
Director of Regeneration, Enterprise & Planning			306	272	(34)	G	
	RG01	Head of Economic Development and Regeneration	109	152	43	G	Overspend due to Interim Cover of vacant post £83k, partially offset by Recharge to EZ £40k
	RG02	Programmes & Enterprise	1,155	1,200	45	G	Overspend relates to £100k Grant to DAPT to be agreed at Cabinet 11/01/17. Partially offset by Recharges to EZ
Economic Development and Regeneration			1,264	1,352	88	A	
	PE02	Building Control	(45)	1	47	G	Anticipated drop in income of £68k due to market conditions and reduction in market share. This has been partially offset by employee savings due to officer reducing hours and other minor variations
	PE03	Development Control	67	(187)	(254)	B	Due to the level of income received to date forecast income for the whole year has been increased by £260k compared to the budget, this is an increase of £10k from last month's forecast. There were a couple of large appeals, that were being dealt with. One of these been lost, and the Council is liable to pay partial costs to the developer, at present the value of these are unknown. These costs are likely to be funded from corporate reserves, and are therefore not included in the Directorate forecasts. The other claim is still ongoing.
	PE06	Head of Planning	110	73	(37)	G	Underspend due to forecast expenditure on Head of Service less than employee budget allocated

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
PE15		Joint Planning Unit	108	31	(77)	G	Additional refund of £28k due re 15/16 Contribution to JPU, savings on 16/17 contribution £63k. Offset by reduced recharges to JPU of £14k
PE17		Planning & Regn Project Support	25	29	4	G	
RG04		Planning Policy & Heritage	607	556	(52)	G	
Head of Planning			872	502	(370)	B	
Director of Regeneration, Enterprise & Planning			1,925	1,733	(192)		
HS05		Housing Options & Advice	665	828	163	R	Mainly due to additional staff costs for agency staff £70k, £30k Homelessness Prevention schemes and £49k of unmet corporate savings targets.
HS13		Head of Housing and Wellbeing	129	125	(4)	G	
PE09		Travellers Sites	38	48	10	G	
PE12		Private Sector Housing	87	341	254	R	£28k unachieved Vacancy Factor savings. £115k reduction in Licensing Income mainly due to a Legal issue regarding the ability of staff being able to issue non-compliance notices. £44k reduction in Disabled Facility Grants fees. £20k unachieved income on the Empty Homes scheme offset by an underspend of £81k on Consultancy costs. £125k due to additional staff costs for agency staff, partly offset by vacant post savings, mainly in Home Adaptations and Housing Standards.
RG03		Housing Strategy & Wellbeing	157	60	(97)	G	
Head of Housing and Wellbeing			1,076	1,402	325	R	
Housing			1,076	1,402	325		
GC08		Communications	256	245	(11)	G	
GC15		Emergency Planning	52	52	0	G	
PI20		Performance and change	55	37	(18)	G	
Business Change			363	334	(29)	G	
CX01		Chief Executive	185	185	0	G	Spend on the Association of Electoral Administrators while the Elections Manager post is being recruited to.
GC02		Civic and Mayoral Expenses	91	108	17	G	
GC05		Overview & Scrutiny	47	49	2	G	
GC06		Councillor & Managerial Support	535	526	(9)	G	
LD02		Electoral Services	303	428	125	R	
LD04		Legal	140	166	26	G	
LD08		Democratic Services	261	216	(45)	G	
Borough Secretary			1,562	1,677	115	R	
Borough Secretary			1,925	2,011	87		
DR01		Director of Customers & Communities	182	222	40	G	
Director of Customers & Communities			182	222	40	G	

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
	CE03	Events	285	259	(26)	G	
	CE06	Museums and Arts	772	816	44	G	New posts being created due to restructure in this service but offset against vacant posts £40k. Corporate sickness savings and vacancy factor not being meet £17k.
	CE17	CCTV	177	186	9	G	
	CE23	Town Centre Management	40	41	2	G	
	CE24	Car Parking	(905)	(1,396)	(490)	B	
	CE26	Bus Station	116	104	(11)	G	
	CS02	Call Care	(12)	(8)	4	G	
	CS03	Head of Customer & Cultural Services	90	106	16	G	
	CS04	Customer Services	290	326	36	G	The forecasted overspend is due to corporate sickness and vacancy factor totalling £32k not being able to be met due to this being a front line service so required to be fully staffed at all times.
	FA08	Facilities Management	1,282	1,244	(38)	G	(£32k) due to a vacant posts being left held unfilled to make efficiency savings. Savings on utilities costs (£22k). £20k reduction in income forecast due due income received in advance in 2015/16 not carried in to 2016/17.
	FA09	Markets	(40)	(38)	1	G	
	Head of Customer & Cultural Services		2,094	1,640	(454)	B	
	CE02	Community Safety	199	184	(16)	G	
	CE04	Leisure Contract	75	125	50	G	Unachievable saving in relation to the review of lease/management agreement with Northampton Leisure Trust.
	GC04	Policy	5	5	0	G	
	GC09	Community and Other Grants	1,218	1,218	0	G	
	GC10	Community Developments	92	98	6	G	
	GC11	Community Centres	20	20	0	G	
	LD05	Licensing	(258)	(406)	(148)	B	Additional income from Taxi licences and reduced expenditure
	PE07	Pest Control	2	4	2	G	
	PE10	Commercial Services	233	246	13	G	
	PE11	Environmental Protection	375	384	9	G	
	SS09	Environmental Services Contract	7,102	6,917	(185)	B	Estimated deductions made to the monthly core contract payment (£600k). Additional Pension charges of £194k have been incurred. Additional costs of £130k for pro active work on fly tipping. £12k on agency staff for park duties. £13k on Northamptonshire Waste Partnership membership. £18k for legal costs incurred on the EMS claim. Annual inflationary increases on the price of the EMS contract £42k.

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
	SS11	Parks & Open Spaces and Neighbourhood Wardens	491	503	12	G	
	SS20	Environmental Services	(340)	(326)	14	G	
Head of Communities and Environment			9,215	8,973	(242)	B	
Director of Customers & Communities			11,491	10,835	(656)		
	FA03	Audit	160	160	0	G	
	FA04	Non Distributed Costs	5,561	5,561	(0)	G	
	FA20	Corporate Finance	73	73	(0)	G	
	HS01	Benefits	(1,368)	(1,109)	260	R	Additional costs for B&B and County Chambers
	HS03	Revenues	(913)	(913)	0	G	
Corporate			3,513	3,773	260	R	
	LGSS	Local Government Shared Service	8,321	8,321	0	G	
LGSSX			8,321	8,321	0	G	
Total Service Budgets			28,251	28,075	(176)		
	01	Debt Financing	1,851	1,481	(370)	B	Interest payable on borrowing - forecast £14k under budget. Interest receivable on investments - An overspend of £81k is forecast due to reduced interest rate forecasts since the start of the year and following the Brexit vote. MRP - Significant savings (£227k) generated due to repayment of borrowing on short-life assets during 2015-16 and carry forward of some capital expenditure into 2016-17. Recharges from/(to) the HRA - Forecast at £142k below budget due to lower opening balances than budgeted, and lower average rate of interest assumed on investments (0.65% compared to 0.90% budgeted).
Total Corporate Budgets			1,851	1,481	(370)		
Total General Fund			30,102	29,556	(546)		

NB Capital Monitoring

Capital GF Budget Forecasts 2016/17

December 2016

Head of Service	Scheme Code	Scheme Description	Original Budget £000's	Approved Changes In Year £000's	Latest Approved Budget £000's	YTD Actual Expenditure £000's	Committed Expenditure £000's	Forecast Year End Spend £000's	Expected Carry Forward £000's	Foecast Under/Overspend £000's	Summarised Transaction Description
	BA236	Car Park Lifts	250	0	250	0	0	250	0	0	
	BA383	Cinepod - Royal & Derrgate Theatre	0	566	566	0	0	566	0	0	
	BA674	Operational Buildings - Enhancements	250	166	416	39	339	416	0	0	
	BA675	Commercial Landlord Responsibilities	120	292	412	65	5	412	0	0	
	BA889	Mayorhold Car Park - Drainage Works	0	77	77	0	0	77	0	0	
	Glenn Miller		620	1,101	1,721	104	344	1,721	0	0	
	BA197	Delapre Abbey Restoration Minor Projects	0	0	0	0	0	0	0	0	
	BA211	Extension of Duston Cemetery	0	0	0	3	4	0	0	0	
	BA214	St Johns MSCP Storage Facilities Upgrade & Construction	0	0	0	0	0	0	0	0	
	BA215	Moulton Athletic Track	0	631	631	526	464	631	0	0	
	BA221	Vulcan Works	3,940	(210)	3,730	65	5	850	2,880	0	
	BA223	Eastfield Park Additional Play Equipment	0	47	47	45	2	45	0	(2)	
	BA224	Delapre Abbey and Parklands Infrastructure	100	197	297	18	11	297	0	0	
	BA226	Purchase of National Grid Land	0	1,500	1,500	0	0	1,500	0	0	
	BA227	Duston Arts Project	40	1	41	25	14	41	0	0	
	BA229	Weston Favell Improvement Project	0	33	33	9	0	24	0	(9)	Underspend to due Scope of Works being reduced
	BA243	Lodge Farm Community Centre	0	53	53	0	1	1	52	0	Budget carried forward to next financial year as works will only commence 0 sometime in February 2017.
	BA652	Visitor Signage in Town Centre	0	73	73	0	0	50	23	0	Due to the programme of works to be completed by 31 March 2017 there will be an underspend of approx £22,990 which will be carried forward to the next financial 0 year.
	BA653	Delapre Abbey Restoration	595	2,775	3,370	3,048	139	4,020	0	650	£65k increase to budget to allow the procurement of a Servery for the café which was approved under delegated powers due to the urgency.
	BA663	Duston Wetlands Development & Implementation	0	201	201	0	0	0	201	0	
	BA666	Greyfriars Bus Station Demolition	0	30	30	(6)	83	30	0	0	Drainage works are now predicted to complete by 31 March 2017.
	BA668	Abington Street - Opening Up to Traffic	0	0	0	(2)	2	0	0	0	
	BA669	St Giles Street Improvements	2,200	423	2,623	1,918	171	1,933	0	(690)	Consultant costs to be charged to the scheme
	BA670	Waterside Improvements (Southbridge)	0	40	40	20	0	40	0	0	
	BA671	Heritage Gateway	0	88	88	7	0	88	0	0	
	BA672	Capital Improvements - Regeneration Areas	250	253	503	181	0	503	0	0	Includes £30k to be spent on Swan Street Car Park
	BA684	Superfast Broadband	45	0	45	45	367	45	0	0	
	BA685	Northampton Bike Hire Scheme	0	55	55	45	10	55	0	0	
	BA687	St Peters Waterside	0	1,021	1,021	0	19	0	1,021	0	Projecting slipping to 2017/18 due to further negotiations with developer which will 0 lead to cabinet report in due course
	BA696	Pig & Whistle Refurbishment Works	0	0	0	0	11	0	0	0	
	BA698	Delapre Abbey New Tea Room & Pony Club Office	0	0	0	0	0	0	0	0	
	BA891	Bus Interchange	0	0	0	(0)	0	0	0	0	
	John Dale		7,170	7,210	14,380	5,946	1,302	10,153	4,177	(50)	
	BA186	Improvement to Parks Infrastructure	0	0	0	0	0	0	0	0	
	BA220	St Crispins Community Centre	1,150	959	2,109	1,479	402	2,110	0	0	
	BA230	St. Crispins Allotments	0	265	265	168	18	265	0	0	
	BA232	Southfields Recreation Park Play Equipment	0	25	25	25	0	25	0	0	
	BA233	Banbury Lane Pocket Park Play Equipment	0	24	24	23	0	24	0	0	
	BA234	Hardingstone Recreation Ground	0	42	42	37	0	42	0	0	
	BA241	Improvements to town centre cleansing	0	17	17	17	0	17	0	0	
	BA245	Berrywood Road Footpath	0	10	10	10	0	10	0	0	
	BA246	Southfield Park Footpaths	0	20	20	19	1	20	0	0	
	BA673	Parks / Allotments / Cemeteries Enhancements	250	20	270	158	55	270	0	0	
	Julie Seddon		1,400	1,382	2,782	1,935	476	2,782	0	0	
	BA165	Corporate EDRMS	0	57	57	6	1	38	20	1	Resource shortage in Housing/NPH has caused delays
	BA207	ICT Improvement / Refresh	215	247	462	111	93	305	162	5	Delays in appointing a project manager and ordering equipment
	BA216	Central Museum Development	495	94	589	2	0	150	439	(0)	
	BA225	Car Park Pay Machines	0	0	0	8	3	0	0	0	
	BA231	LED Lighting - Mayorhold & St Johns MSCP	0	128	128	72	0	128	0	0	

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Head of	Scheme Code	Scheme Description	Original Budget	Approved Changes In Year	Latest Approved Budget	YTD Actual Expenditure	Committed Expenditure	Forecast Year End Spend	Expected Carry Forward	Foecast Under/Overspend	Summarised Transaction
	BA235	CCTV Technology Upgrade	200	0	200	0	64	200	0	0	
	BA240	Abington Park Museum - Renewal of Displays	210	0	210	1	5	210	0	0	
	BA659	Call Care Project (part of prevention programme)	0	9	9	0	0	9	0	0	
	BA764	One Stop Shop, CRM	0	0	0	4	0	0	0	0	
	BA893	Microsoft Office 2010 Upgrade	0	8	8	2	0	8	0	0	
Marion Goodman			1,120	543	1,663	206	165	1,047	621	6	
	BA645	S106 Contributions to Other Organisations	0	74	74	74	0	74	0	0	
	BA883	Planning IT Improvements (HPDG)	17	0	17	0	0	7	0	(10)	
Peter Baguley			17	74	91	74	0	81	0	(10)	
	BK015	DFG's Owner Occupiers	1,875	(57)	1,818	864	467	1,393	0	(425)	
	BA247	Emergency Nightshelter	0	100	100	0	0	100	0	0	
	BK044	Decent Homes Assistance	0	0	0	(0)	0	0	0	0	
Phil Harris			1,875	43	1,918	864	467	1,493	0	(425)	
Total Scheme Budgets			12,202	10,352	22,554	9,129	2,754	17,277	4,798	(479)	

Housing Revenue Account

Revenue Budget Forecasts 2016/17

December 2016

Key to BRAG where Forecast variance is:

Greater than £(100k)

Between £50k and £(100k)

Between £51k and £100k

Greater than £100k

Type	SEADIV	Service Area	TOTAL Current Budget £000's	NPH Managed Budget £000's	Actuals £000's	Forecast Outturn £000's	Forecast Variance £000's	BRAG Status	Notes on Forecast Variances
INCOME									
	H1	Dwelling Rents	(50,494)	0	(26,305)	(50,312)	182	R	Higher level of RTB sales than anticipated
	H2	Non-Dwelling Rents	(1,109)	0	(689)	(1,131)	(23)	G	
	H3	Other Charges for Services	(2,077)	0	(1,202)	(2,082)	(5)	G	
	H4	Contribution To Expenditure	(55)	0	(1)	(8)	47	G	
Total Income			(53,734)	0	(28,197)	(53,533)	202	R	
EXPENDITURE									
	H10	Repairs & Maintenance	14,707	14,708	7,577	14,358	(349)	B	Lower costs in relation to void repairs and Gas Central Heating system repairs and maintenance.
53	H8	General Management	7,380	6,834	6,062	7,224	(155)	B	Primarily staff savings as a result of vacant posts
	H9	Special Services	4,599	4,519	1,896	4,306	(293)	B	Primarily staff savings as a result of vacant posts
	H7	Rents, Rates, Taxes	279	0	124	279	0	G	
	H13	Provision for Bad Debts	550	0	263	350	(200)	B	Lower level of arrears than expected. Phased introduction of Universal Credit.
Total Expenditure			27,515	26,061	15,922	26,517	(997)	B	
Net Cost of Services			(26,220)	26,061	(12,276)	(27,016)	(796)	B	
		Net Recharges from the General Fund	2,945		2,209	2,945	0	G	
		Interest & Financing Costs	6,270		4,734	6,312	42	G	
		Depreciation/MRA	13,008		9,756	13,008	0	G	
		Revenue Contributions to Capital	11,513		8,635	11,513	0	G	
		Net Contribution (from) / to Earmarked Reserves	(7,517)		(5,072)	(6,763)	754	R	Lower net contribution required from HRA Reserve
Net Transfer From / (To) Working Balance			0	26,061	7,986	0	0	G	
		Working Balance b/f	(5,000)		(5,000)	(5,000)	0		
Working Balance Outturn			(5,000)	26,061	2,986	(5,000)	0	G	

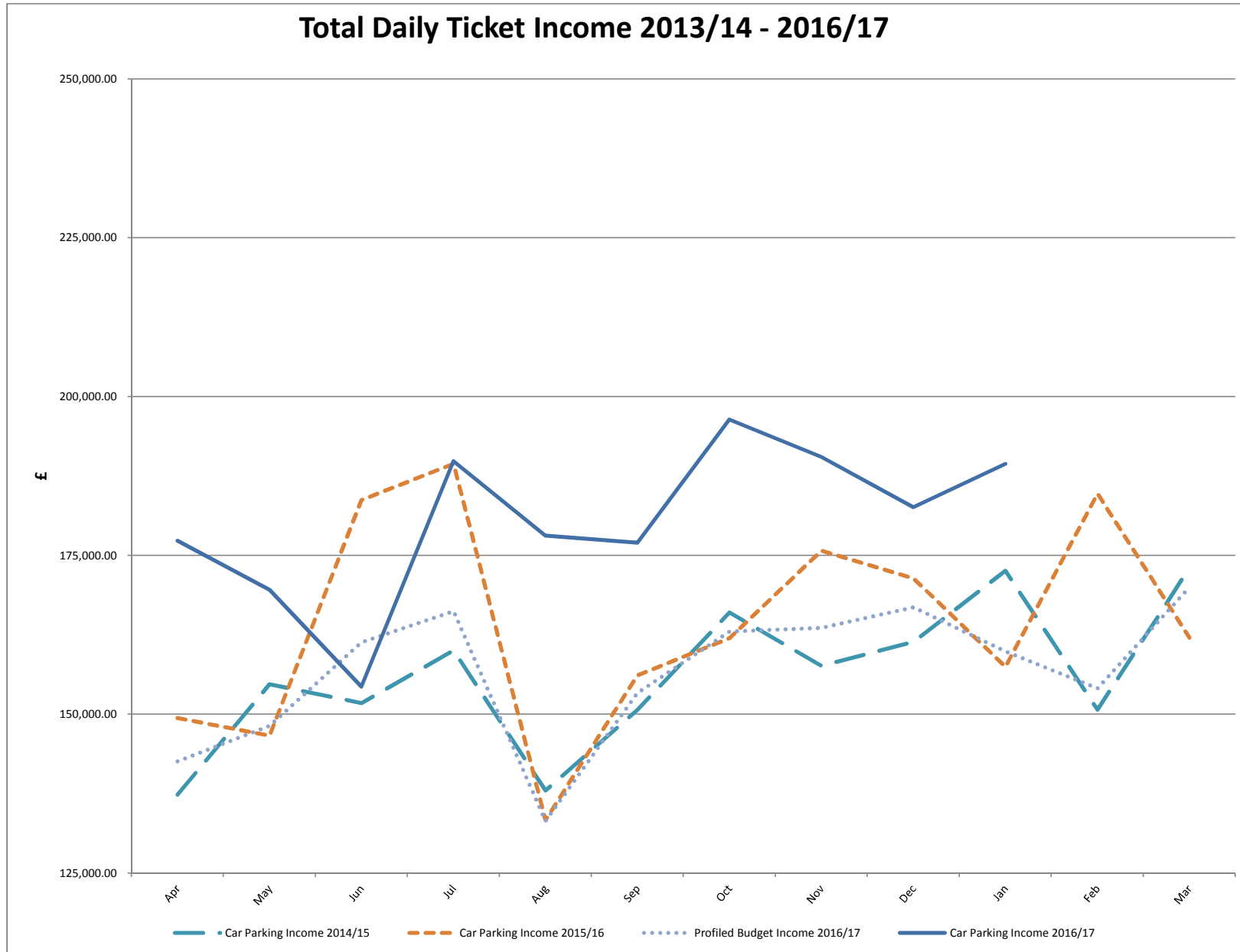
NB Capital Monitoring

Capital HRA Budget Forecasts 2016/17

December 2016

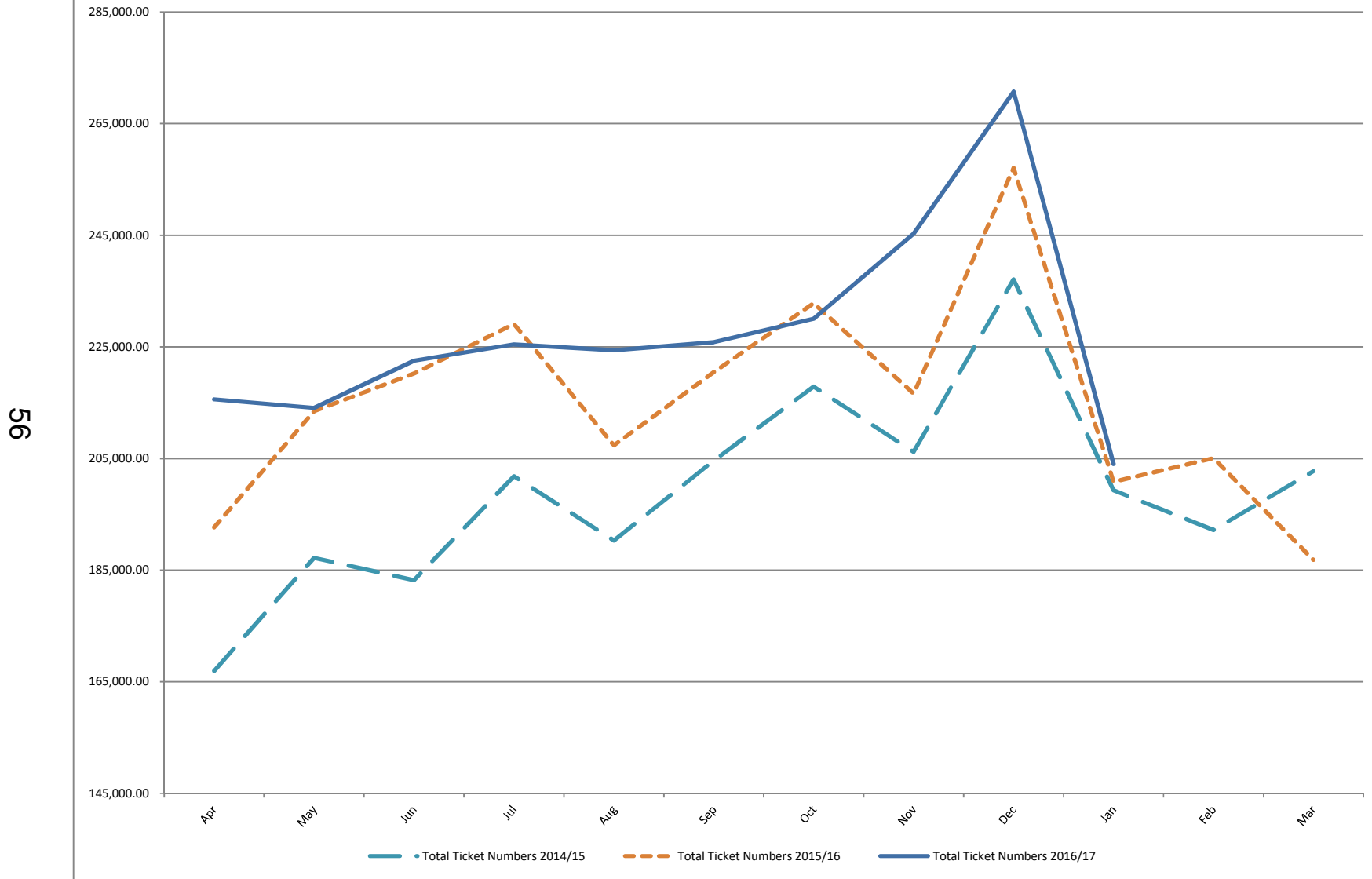
Head of Service	Scheme Code (NBC)	Scheme Description	Original Budget £000's	Approved Changes In Year £000's	Latest Approved Budget £000's	YTD Actual Expenditure £000's	Committed Expenditure £000's	Forecast Year End Spend £000's	Expected Carry Forward £000's	Forecast Under /Overspend £000's	Narrative
	BH317	Decent Homes	0	0	0	15	0	15	0	11	Residual payments
	BH383	Sotheby Rise and Dallington Haven Car Park Improvements	0	0	0	7	0	7	0	7	Retention payment
	BH370	Repurchase of Former Council Houses	1,138	587	1,725	735	0	1,725	0	0	
P Harris	BH384	New Build - Dallington	8,706	600	9,306	0	0	1,000	0	(8,306)	Scheme under review
NBC Retained Capital Schemes			9,844	1,187	11,031	757	0	2,747	0	(8,288)	
NPH	BH801	NPH Capital - Managed Budget Improvement to Homes	20,636	2,521	23,157	14,053	11,505	23,173	0	15	
NPH	BH802	NPH Capital - Managed Budget Improvement to Environment	3,970	0	3,970	3,251	1,307	3,955	0	(15)	
NPH	BH803	NPH Capital - ITC	0	689	689	232	82	570	119	(0)	
NPH Managed Capital Schemes			24,606	3,210	27,816	17,536	12,894	27,697	119	0	
Total Scheme Budgets			34,450	4,397	38,847	18,293	12,894	30,444	119	(8,288)	

Total Daily Ticket Income 2013/14 - 2016/17



Income to the end of January was £247k greater than budgeted profile for the first 10 months of 2016/17

Total Summary Daily Ticket Numbers 2013/14 - 2016/17



The volume of tickets issued up to and including the end of period 10 was 87k higher than for the same period in 2015/16.

Appendices: Nil



AUDIT COMMITTEE REPORT

Report Title	Position Statement on Vacant Posts and Interim/Agency Staff
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	06 March 2017
Policy Document:	No
Directorate:	Finance Directorate LGSS
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

- 1.1 To present Committee with a position statement as to the numbers of staff vacancies and interims/agency staff engaged.

2. Recommendations

- 2.1 To consider the contents of this finance report.
- 2.2 To consider whether Committee requires any additional information in order to fulfil its governance role.

3. Issues and Choices

3.1 Report Background

- 3.1.1 A Finance report is presented to Cabinet quarterly (including the outturn report) which are then brought to the first available Audit Committee meeting following their production.
- 3.1.2 At it's meeting on the 14 March Audit Committee raised a query requesting further information on:
- The number of interim/agency staff and vacant positions currently held at the Council

3.2 Interim/Agency Staff and Vacant Positions

3.2.1 The number of interim and agency staff engaged to provide cover for vacant posts in the establishment, and the total cost for the year to the end of January 2017 is summarised in the table below.

Directorate	February 2016	November 2016	January 2017	Total 2016/17 Cost to end January £000
Borough Secretary	9	5	5	144
Director of Customers & Communities	*13	*7	*7	140
Director of Regeneration, Enterprise & Planning	13	8	8	477
Housing and Well Being	4	7	4	283
Total	39	27	24	1,044

Note : *12 Posts removed from total relating to Enterprise Contract as costs are being recovered through the contract.

3.2.2 The number of interim and agency staff engaged and the length of engagement is summarised in the table below.

Directorate	January 2017	Length of time engaged				
		<1 month	1-3 months	3-6 months	6-12 months	12+ months
Borough Secretary	5	-	-	-	1	4
Director of Customers & Communities	7	-	3	2	1	1
Director of Regeneration, Enterprise & Planning	8	-	3	1	3	1
Housing and Well Being	4	-	-	1	1	2
Total	24	-	6	4	6	8

3.2.3 The number of staff vacancies is summarised in the table below.

Directorate	Total Posts	Vacancies (March 2016)	Vacancies (November 2016)	Vacancies (January 2017)	Recruiting to	Covered by Interims/ Agency
Borough Secretary	28	11	8	5	1	5
Director of Customers & Communities	16 9	23	11	12	10	7
Director of Regeneration, Enterprise & Planning	65	13	13	12	1	8
Housing and Well Being	37	5	9	8	6	4
Total	299	52	41	39	18	24

3.2.4 Borough Secretary. Of the 5 vacancies, through the department, 1 has been offered a permanent role, 1 is being re-advertised, 2 are under review and the remainder are being held pending restructures.

3.2.5 Of the 12 vacancies in the Directorate of Customers & Communities, 10 are in the process of being recruited to and the remainder are being held pending restructures to find further savings.

3.2.6 Of the 12 vacancies within the Directorate of Regeneration, Enterprise and Planning, three posts were unsuccessfully recruited to; these posts are under review. One post is being recruited to, 2 have been offered a permanent role and the remaining posts are held for review.

3.2.1 Of the vacant positions in the Housing and Wellbeing Service, 6 are in the process of being recruited.

3.3 Choices (Options)

3.3.1 None

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no specific policy implications arising from this report.

4.2 Resources and Risk

4.2.1 Ongoing monitoring of the Council's budget and capital programme enables early intervention and appropriate remedial action, thus mitigating risks to the Council's financial viability and to its reputation.

4.3 Legal

4.3.1 There are no specific legal implications arising from this report.

4.4 Equality

4.4.1 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 None at this stage.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Regular reporting of the Council's financial position helps to ensure the proper stewardship of the Council's resources. Active financial management contributes to the delivery of value for money services, enabling public money to be used to maximum benefit.

4.7 Other Implications

4.7.1 The responsibility for determining whether agency/interim workers are deemed employees for tax purposes will be that of public sector bodies from April 2017. This will mean that the Council will have to assess all individuals who are doing work for the authority against a number of criteria being developed by HMRC, the assessment toolkit has not been finalised. This is a change from the current position where the individual has to make the assessment as to whether they are what is known as 'IR35' compliant.

4.7.2 Where the Council determines that individuals are inside IR35 then they will have to notify those individuals and the agency that represents them (in the case of NBC this is mostly Guidant) so that personal tax can be deducted at source through a PAYE system rather than leaving it to the individual as either an employee of their own limited company or as a self employed person to calculate and pay the relevant tax.

4.7.3 Management are actively working with the Council's preferred supplier Guidant and all other agencies to ensure that the new responsibilities are met, and processes are being put in place to manage it. All existing agency and temporary contracts are being reviewed against the draft criteria, and a prudent approach is being taken to minimize any potential risk

5. Background Papers

None

Glenn Hammons
Chief Finance Officer, Telephone 01604 366521

Appendices: 1



AUDIT COMMITTEE REPORT

Report Title	Corporate debt – Progress and Age debt analysis
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 th March 2017
Policy Document:	No
Directorate:	Finance Directorate LGSS
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

- 1.1 To update Committee on the position regarding the Council's outstanding debts as at 31st January 2017.
- 1.2 The detailed focus of the report this month is primarily on Council Tax as this is the area that has been receiving the most scrutiny recently.

2. Recommendations

- 2.1 To note the latest position in relation to the Council's outstanding debts as at 31st January 2017
- 2.2 To consider whether Committee requires any additional information in order to fulfil its governance role.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Revenues and Benefits Service compile a corporate debt summary that monitors the % of debt not currently managed (inactive debt) within the Council. This has been in place for a number of years and provides assurance that all debt is managed to a high standard and not left idle. The % that is shown relates to debt that has fallen

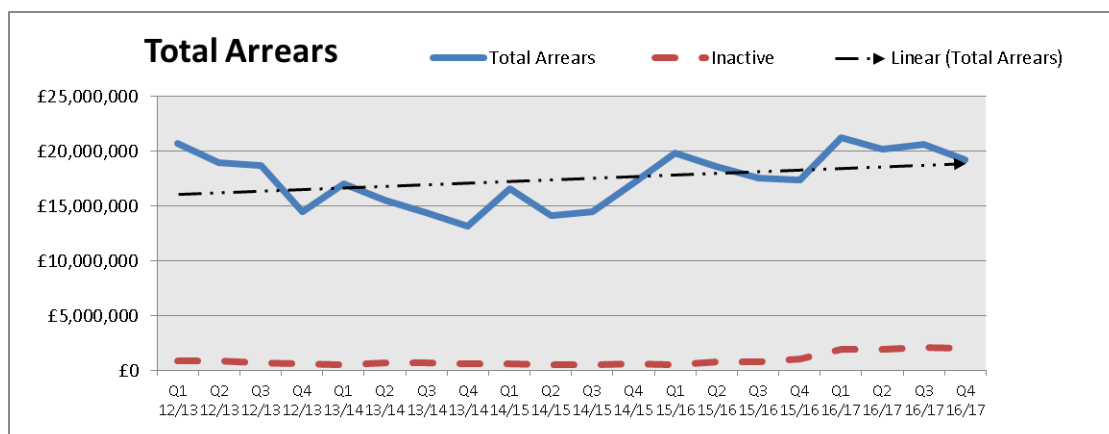
out of one status and is in the process of being moved to another stage. This summary also provides a view of the current status of debt.

- 3.1.2 Managed debt is where a debt type is within a specific set of clearly measurable criteria, and unmanaged debt is outside these criteria. An example of this is:

Criteria “Invoiced debt will be sent a reminder if it remains unpaid after 28 days”. All debts invoiced and outstanding less than 29 days is “managed”, any debt outstanding after 28 days, outstanding and not issued with a reminder is “unmanaged”. The debt that has just had a reminder issued would then become subject to a new set of criteria for invoices at reminder stage, which it is measured against.

- 3.1.3 This principle supports the theory that managed debt is more likely to be paid, and more promptly. It can be applied to all stages in the life of a debt, how long a disputed debt is on hold, how long a debt is with enforcement agents, or how long it takes to go through a legal process etc.
- 3.1.4 The process supports evidence gathering for process change and improvement, identifying blockages, removing hearsay and myth busting, and the write-off of irrecoverable debts at an earlier stage.
- 3.1.5 Each service area has a detailed recovery timetable, with definitions of debt type and criteria that recovery is taken against.
- 3.1.6 The amount of unmanaged debt is a corporate KPI. Currently being no more than 4.5% of the total amount of outstanding arrears.
- 3.1.7 Although the KPI is measured on a monthly basis for internal performance purposes, it is reported quarterly, and the graphs used below provide a pictorial illustration of performance since the 1st April 2012.
- 3.1.8 Half-yearly performance for the same period, demonstrated by value of managed, unmanaged and total arrears outstanding can be found in **Appendix A**.

3.1.9 Overall debt levels as at 31st January 2017

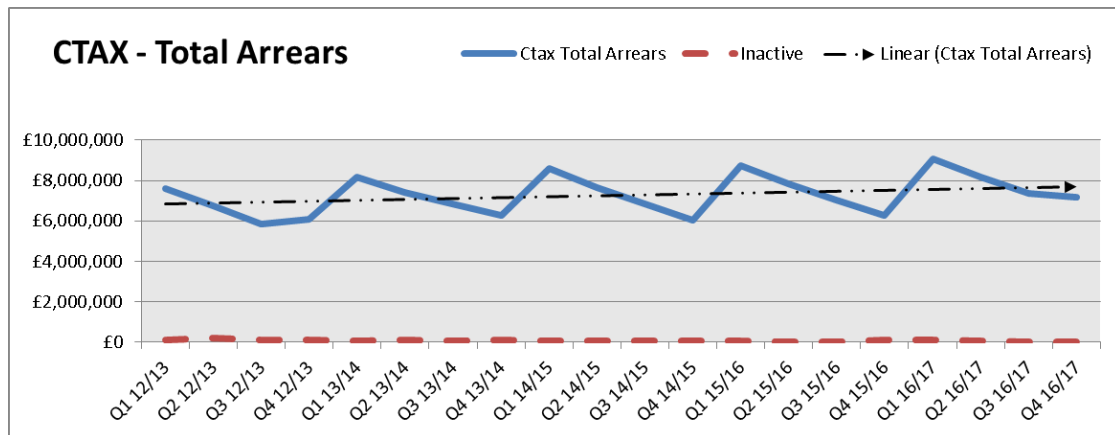


3.1.10 The overall outstanding arrears have increased by £2,554k compared to the same point last year. Please see individual debt types for explanation of the increase.

3.1.11 Unmanaged debt is £933k more than the same time last year. The majority of unmanaged debt within the Council sits within Asset management and is currently standing at £1.4m. The Asset management debt type is the collection and recovery of the commercial rent and any associated insurance, for council land and buildings. This does not include the Council's housing stock.

3.1.12 A significant part (£1,080k) of the unmanaged debt in the asset management debt type relates to County Developments (Northampton) Ltd, which is currently part of the Council's on-going discussions with the Liquidators.

3.1.13 Council Tax as at 31st January 2017



- 3.1.14 The overall outstanding arrears are £259k more than at the same point last year, which is due to an increase in the Council Tax charge in 2015/16 and a reduction in the 2015/16 Council Tax Reduction Scheme.
- 3.1.15 Unmanaged debt is £45k less than the same time last year and the amount of debt collected against arrears is £388k higher during this financial year.
- 3.1.16 The continued introduction of Welfare Reforms continue to increase the pressure on those liable for Council Tax and on a low income. There has also been a significant rise in the number of attachment of benefits orders.
- 3.1.17 The current amount of unmanaged (inactive debt) is 0.39%, which is seen as good performance and maximising the opportunity to collect any outstanding arrears.
- 3.1.18 Whilst there are pressures on in-year collection, the table shows that the Council is making efforts to collect monies over the longer term. This is more often than not, arrangements of smaller amounts over the longer term. This is the most proven way of helping our customers make sustainable repayment plans and equally allowing the balancing of their personal budgets.
- 3.1.19 Comparison between the 31st January 2017 and the 31st January 2016
- 3.1.20 The continued introduction of Welfare Reforms continues to increase the pressure on those liable for Council Tax and on a low income. There has also been a significant rise in the number of attachment of benefits orders.

- 3.1.21 The table below 3.1.25 provides some context around the impact that the welfare reforms are having on both our service users and the service.
- 3.1.22 The Council Tax Reduction Scheme (CTRS) is the support provided towards the Council Tax for those customers on a low income.
- 3.1.23 An Attachment of Benefit (AOB) is a deduction from a debtor's benefit, which can only be made after a liability order has been granted. The current rate is £3.70 per week.
- 3.1.24 Special Arrangements (SPARs) are non-statutory arrangements made on accounts where a summons has been issued and a customer has agreed to repay the debt over a period of time, based on their personal circumstances.

3.1.25 The table below highlights some of the key impacts, predominately as a result of the introduction of welfare reforms

In-year collection rate	92.95%	31-Jan-17	92.90%	31-Jan-16
Annual CTRS award	£11m	2016/17	£11.7m	2015/16
Uncollected liability CTRS cases	£1.1m	31-Jan-17	£0.93m	31Jan16adj
CTRS caseload	15,660	31-Jan-17	16,417	31-Jan-16
AOB	£1.2m	31-Jan-17	£817k	31-Jan-16
Monthly amount collected	£30k	31-Jan-17	£29.6k	31-Jan-16
AOB hold	604k	31-Jan-17	£469k	31-Jan-16
SPARs	£1.6m	31-Jan-17	£1.2m	31-Jan-16
Reminders & Finals issued	50,763	31-Jan-17	47,748	31-Jan-16
Summons	10,767	31-Jan-17	9,286	31-Jan-16

3.1.26 The Council has implemented cut of 8% in the amount of CTRS awarded in 2016/17, the overall collection rate has increased from 92.90% in 15/16 to 92.95%, in comparison to the end of January. However this is due to improved collection on non-CTRS cases.

3.1.27 The Council continues to be collecting debt from people, who in previous years, were used to receiving more financial support for their Council Tax.

3.1.28 Whilst the annual amount of CTRS awarded has reduced by 6%, the amount of uncollected liability on the same cases has increased by £107k.

3.1.29 The CTRS caseload falling by 4.6% means that the uncollected liability is also being borne by fewer customers.

3.1.30 The amount of debt subject to an attachment of benefit is significantly higher than last year, as is the amount of debt that is being held awaiting an existing attachment to be paid off. A customer can only have one attachment for council tax in operation at any given time. The monthly amounts being paid direct from the DWP has remained the same, which demonstrates a large increase in the number of customers subject to an attachment, but not necessarily clearing the overall liability.

3.1.31 The issue of recovery documents has increased as compared to last year, with reminders and final notices being up 6%, and summonses being up 16%.

3.1.32 Collection Rates for CTRS cases

3.1.33 The table below highlights the comparison between the claimant types between the 31st January 2017 2016 and the 31st January 2016.

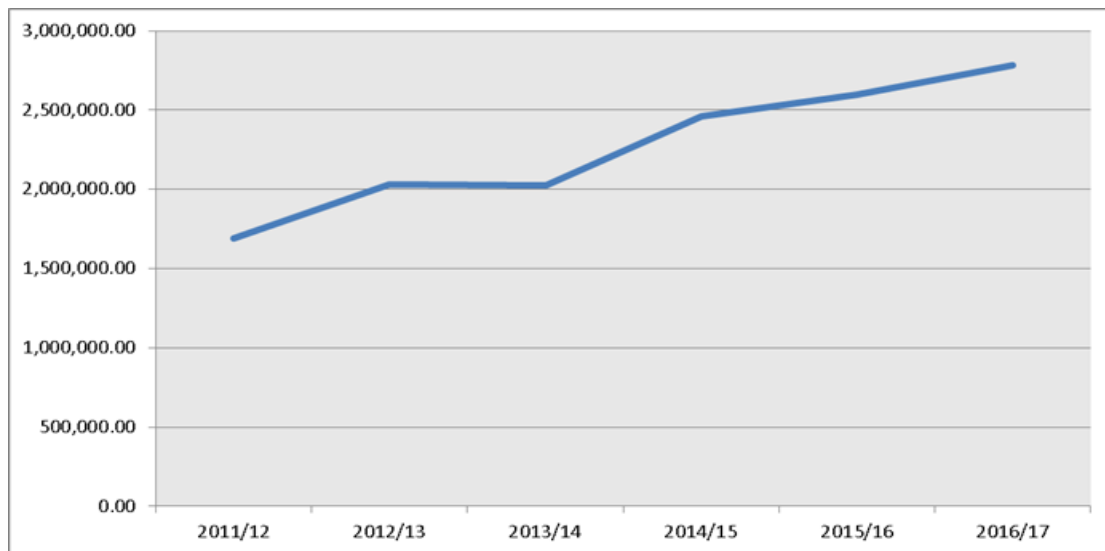
January	2016/17			
CTRS SCHEME	LIABILITY	RECEIPTS	COLLECTION RATE	UNCOLLECTED
	£	£		£
Vulnerable households are claimants who are either lone parents or couples with at least one dependent under 5 years old.	482,874.22	290,174.59	60.09%	192,699.63
Vulnerable are claimants on NBCs local scheme or modified scheme e. g. War widows and disablement pension cases	317.31	456.11	143.74%	-138.80
Pensionable cases are claimants who are of pensionable age and are exempt from the CTRS reduction.	901,359.37	932,623.31	103.47%	-31,263.94
Working age employed are claimants who are either single people or couples who are in paid employment.	1,165,009.65	883,579.71	75.84%	281,429.94
Working age other are claimants who are either single people or couples not in paid employment, and in receipt of DWP benefits.	1,950,475.55	1,282,749.45	65.77%	667,726.10
TOTALS	4,500,036.10	3,389,583.17	75.32%	
January	2015/16			
CTRS SCHEME	LIABILITY	RECEIPTS	COLLECTION RATE	UNCOLLECTED
	£	£		£
Vulnerable households	416,109.43	268,842.44	64.61%	147,266.99
Vulnerable	1,238.69	1,323.54	106.85%	-84.85
Pensionable	926,933.11	963,583.49	103.95%	-36,650.38
Working age employed	1,095,742.00	813,523.22	74.24%	282,218.78
Working age others	1,540,161.27	1,019,079.03	66.17%	521,082.24
TOTALS	3,980,184.50	3,066,351.72	77.04%	

3.1.34 Whilst the overall collection for CTRS cases is 75.32% for 2016/17, it should be noted that the collection rate, excluding pensioners, remains at 71.24%. This is a reduction in collection rate, as compared to the increase reported in 3.1.26 above, and suggests that not only is this customer group finding it more difficult to pay, but disproportionately also.

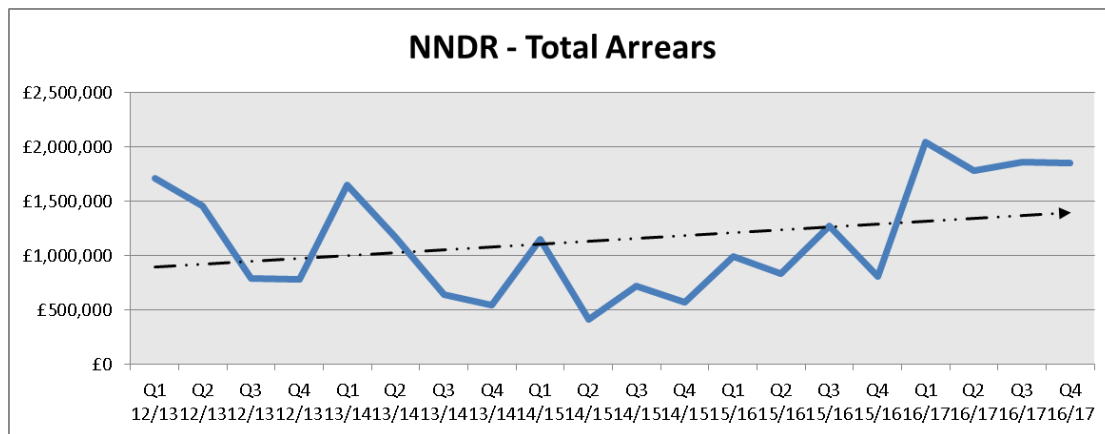
- 3.1.35 For those customers that cannot, or won't, make an arrangement, they will be issued with a summons. Although there is not much attendance at court, the Council will still make an arrangement at this stage.
- 3.1.36 There has been an increase in the number of summons issued in the first ten months of the financial year.
- 3.1.37 Where a Liability Order is obtained, the Council's preferred option is to serve an attachment of benefit, and the use of this method of repayment is on the increase compared to previous years. The Council currently collects £30k per month through AOB, as compared to £29.6k last year.
- 3.1.38 It should be noted that the maximum amount of money that can be deducted is £3.70 per week, regardless of how much a customer owes, and the recovery of council tax is not a priority debt for deduction by the DWP. The maximum a customer in these circumstances can repay is £192.40 per year. In 2016/17, an unparished band A property with two adults would be liable for £1,026.90, reducing by maximum CTR would leave the customer liable to pay £279.95. The issue of a summons would add a further £82.40, leaving a customer with an annual charge of nearly £170 more than the Council is able to recover.
- 3.1.39 There is also a process to support customers whose debt is passed to Enforcement Agents, similar to that provided by the Council.
- 3.1.40 Where customers are making realistic arrangements to pay these are often small amounts, over a long period of time, regardless of what point of the recovery cycle a customer has reached. Customers have struggled to maintain even these small value arrangements and this increases the cost to the Council to administer.

3.1.41 Historic council tax arrears collection

The table below demonstrates the increase in arrears collected in each of the last 6 financial years. However it should be noted that the 2016/17 figure is 10 months of collection, rather than a full year of arrears collection for the previous years.



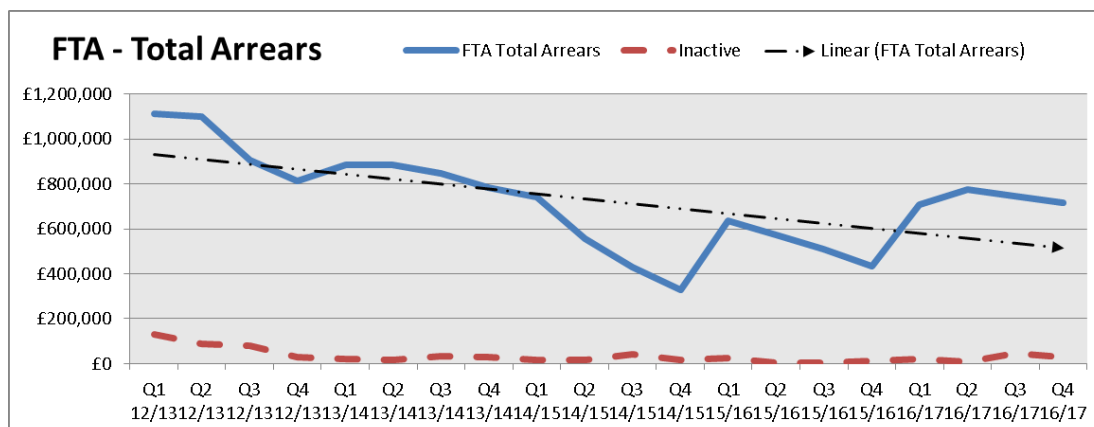
3.1.42 Business Rates (NNDR) as at 31st January 2017



3.1.43 The overall outstanding arrears are £971k more than at the same point last year. This is primarily due to an increase the 2015/16 business rates multiplier and one business which has a backdated account. This is expected to be paid by the end of March 2017.

3.1.44 Unmanaged debt remains unchanged in NNDR as all accounts continue to be monitored on a monthly basis, due to the low number and high value of cases.

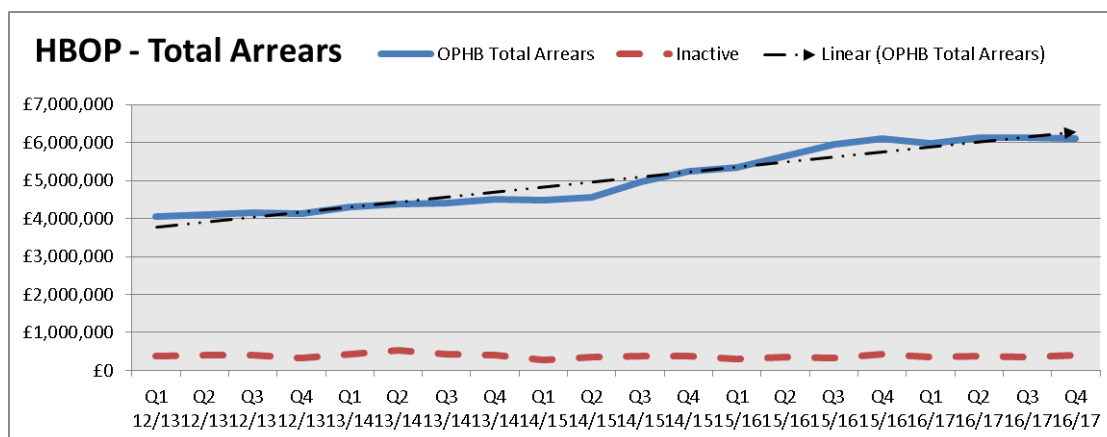
3.1.45 Former Tenant Arrears as at 31st January 2017



3.1.46 The overall outstanding arrears are £232k more than at the same point last year.

3.1.47 Unmanaged debt is £27k more than the same time last year, and the amount of unmanaged debt continues to remain consistently low.

3.1.48 Housing Benefit Overpayments Payments as at 31st January 2017



3.1.49 The overall outstanding arrears are £149k more than at the same point last year. This increase is in line with the national trend for overpayments and relates to the Department for Work and Pensions ongoing initiatives to identify overpayments. These two schemes, “Real Time Information” and “Fraud and Error Reduction Incentive Scheme”, are being fully supported in Northampton and the Council receives an incentive payment for the successful identification and reduction of error.

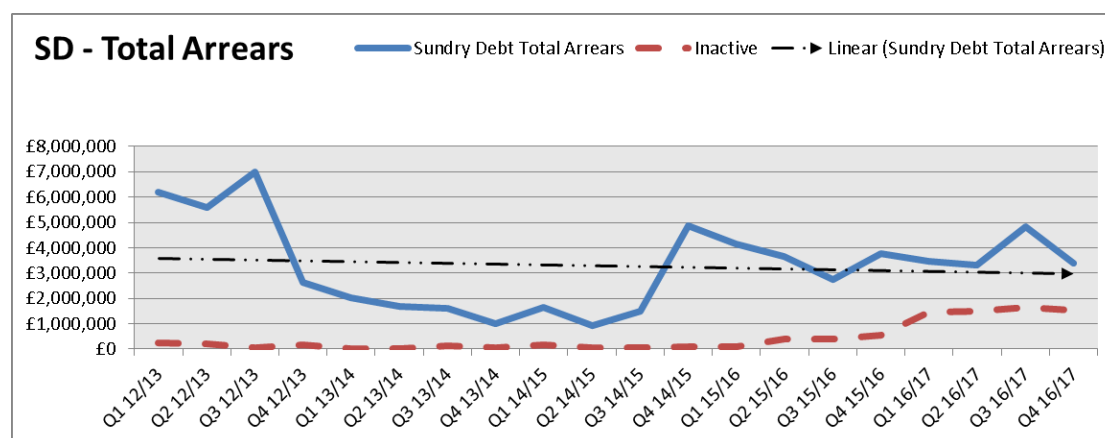
3.1.50 The current performance by our teams has reduced the impact on the Council of these new overpayments. By focusing resource on this debt has the team have supported better outcomes, which can be demonstrated by the reduction in the percentage of unmanaged debt. These debts remain very difficult to collect due to the limited recovery methods available to us, and the economic climate.

3.1.51 Unmanaged debt is £21k less than the same time last year, demonstrating that the Council is working hard to try to recover the outstanding monies.

3.1.52 The national Welfare Reform measures underway are increasing the pressure on individual debtors and their ability to pay debts. Housing benefit overpayments are deemed as a lower priority, as per the Corporate Debt policy, when compared to other debt types, and arrangements tend to be small amounts over a long period of time.

3.1.53 There has also been an increase in direct debit payers for this type of debt, but once again small amounts over a longer period of time.

3.1.54 Sundry Debts (SD) as at 31st January 2017



3.1.55 The overall outstanding arrears are £943k more than at the same point last year.

3.1.56 The unmanaged debt is £931k more than the same time last year. The majority of this is controlled within individual service areas in the Council. The unmanaged debt controlled by the Revenues and Benefits Service is 2.51%.

3.1.57 To allow some context around where the unmanaged debt is sitting within the council is detailed below.

	Level 4 Analysis (Number)			Level 4 Analysis (£)			Level 4 Analysis (%)		
	Managed	Unmanaged	Total	Managed	Unmanaged	Total	Managed	Unmanaged	Total
Asset Management	3	230	233	746	1,428,142	1,428,888	0.05%	99.95%	93.73%
Call Care	5	17	22	203	1,906	2,109	9.64%	90.36%	0.14%
Car Parks	1	25	26	648	52,499	53,147	1.22%	98.78%	3.49%
Environmental Health	0	13	13	0	2,995	2,995	0.00%	100.00%	0.20%
Exchequer Section	0	8	8	0	16,447	16,447	0.00%	100.00%	1.08%
Insurance	0	7	7	0	2,258	2,258	0.00%	100.00%	0.15%
Licensing	2	81	83	1,395	16,275	17,670	7.89%	92.11%	1.16%
Market Office	0	4	4	0	181	181	0.00%	100.00%	0.01%
Private Sector Housing	0	2	2	0	800	800	0.00%	100.00%	0.05%
Error on system	0	1	1	0	0	0	0.00%	0.00%	0.00%
	11	388	399	2,992	1,521,503	1,524,495	0.20%	99.80%	100.00%

3.1.58 Level 4 debt is debt that has received an invoice, reminder and a second reminder/final notice and the later stages of the recovery process is managed within the individual service areas.

3.1.59 A significant part (£1,080k) of the unmanaged debt in the asset management debt type relates to County Developments (Northampton) Ltd, which is currently part of the Council's on-going discussions with the Liquidators.

3.2 Issues

3.2.1 The managed debt analysis and commentary to 31st January 2017 contained within this report.

3.3 Choices (Options)

3.3.1 None

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no specific policy implications arising from this report.

4.2 Resources and Risk

4.2.1 Ongoing monitoring of the Council's debt position enables early intervention and appropriate remedial action, thus mitigating risks to the Council's financial position and to its reputation.

4.3 Legal

4.3.1 There are no specific legal implications arising from this report.

4.4 Equality

4.4.1 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 None at this stage.

4.6 Other Implications

4.6.1 Regular reporting of the Council's financial position helps to ensure the proper stewardship of the Council's resources. Active financial management contributes to the delivery of value for money services, enabling public money to be used to maximum benefit.

5. Background Papers

5.1.1 Not applicable

Ian Tyrer, Revenues Manager, Extension 7451

Appendix A		Half-yearly performance from 2012/13 to present by value of managed, unmanaged and total arrears									
YEAR on YEAR PERFORMANCE	2012/13		2013/14		2014/15		2015/16		2016/17		
	SEP	MAR	SEP	MAR	SEP	MAR	SEP	MAR	SEP	JAN	
TOTAL ARREARS	18,990,764	14,448,119	15,552,879	13,133,970	14,124,390	17,079,190	22,074,394	17,405,921	20,164,989	19,229,552	
Total Awaiting Action	889,537	635,627	686,348	578,997	499,008	580,064	552,182	1,084,977	1,924,839	2,007,073	
Managed Debt	18,101,227	13,812,492	14,866,531	14,052,291	13,625,382	16,499,126	21,522,212	16,320,944	18,240,150	17,222,480	
% unmanaged debt [PI]	4.68%	4.40%	4.41%	4.41%	3.53%	3.40%	2.50%	6.23%	9.55%	10.44%	
CTAX	6,748,461	6,090,189	7,430,390	6,281,511	7,664,327	6,053,552	7,857,713	6,280,780	8,167,738	7,154,718	
unmanaged debt	190,988	111,528	123,521	103,752	81,410	63,263	43,391	96,208	49,717	27,670	
managed debt	6,557,474	5,978,660	7,306,869	6,177,759	7,582,917	5,990,289	7,814,322	6,184,572	8,118,021	7,127,048	
unmanaged debt	2.83%	1.83%	1.66%	1.65%	1.06%	1.05%	0.55%	1.53%	0.61%	0.39%	
NNDR	1,454,169	776,782	1,162,504	543,491	407,858	568,644	830,958	807,217	1,777,515	1,847,464	
unmanaged debt	0	0	0	0	0	0	0	0	0	0	
managed debt	1,454,169	776,782	1,162,504	543,491	407,858	568,644	830,958	807,217	1,777,515	1,847,464	
unmanaged debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
FTA	1,101,424	814,503	886,670	784,750	557,708	328,049	573,762	435,545	773,435	716,744	
unmanaged debt	87,568	30,016	17,649	28,324	16,431	17,761	4,015	11,925	7,560	27,257	
managed debt	1,013,856	784,487	869,021	756,426	541,277	310,288	569,747	423,620	765,875	689,487	
unmanaged debt	7.95%	3.69%	1.99%	3.61%	2.95%	5.41%	0.70%	2.74%	0.98%	3.80%	
HBOP	4,090,115	4,122,698	4,381,953	4,515,411	4,555,039	5,243,926	5,645,801	6,094,450	6,127,991	6,107,644	
unmanaged debt	409,456	328,701	528,023	399,861	355,323.49	386,239	340,936	439,155	377,010	412,983	
managed debt	3,680,659	3,793,997	3,853,930	4,115,550	4,199,716	4,857,687	5,304,865	5,655,295	5,750,982	5,694,661	
unmanaged debt	10.01%	7.97%	12.05%	8.86%	7.80%	7.37%	6.04%	7.21%	6.15%	6.76%	
Sundry Debt	5,596,594	2,643,948	1,691,362	1,008,807	939,457.37	4,885,020	7,166,160	3,787,929	3,318,311	3,402,982	
unmanaged debt	201,526	165,382	17,155	47,060	45,844.00	112,802	163,839	537,689	1,490,553	1,539,163	
managed debt	5,395,068	2,478,566	1,674,207	961,747	893,613	4,772,218	7,002,321	3,250,240	1,827,758	1,863,820	
unmanaged debt	3.60%	6.26%	1.01%	4.66%	4.88%	2.31%	2.29%	14.19%	44.92%	45.23%	

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AUDIT COMMITTEE REPORT

Report Title	Accounting Policies and Statement of Accounts changes
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 th March 2017
Policy Document:	Yes
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr B Eldred

1. Purpose

- 1.1 The purpose of the report is to bring the Accounting Policies to Audit Committee for approval.

2. Recommendations

- 2.1 It is recommended that Audit Committee approve the Accounting Policies for the 2016/17 Statement of Accounts, as set out at **Appendix 1**.
- 2.2 The Audit Committee notes that the S151 Chief Finance Officer as part of the closure of accounts guidelines will increase the accruals de-minimus from £1,000 to £5,000 for 2016/17.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The accounting policies outline how Northampton Borough Council will account for all income, expenditure, assets and liabilities held and incurred during the financial year.
- 3.1.2 It is good practice to bring these policies to those charged with governance for approval each year.
- 3.1.3 The accounting policies for the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting. Where there is no specific guidance in the CIPFA

Code, the Authority has developed its own accounting policy, which is aimed at creating information, which is:

- Relevant to the decision making needs of users; and
- Reliable, in that the financial statements:
- Represent faithfully the financial position, financial performance and cash flows of the entity;
- Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
- Are neutral i.e. free from bias;
- Are prudent; and
- Are complete in all material respects.

3.1.4 The accounting policies of the Authority are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authorities accounts.

3.1.5 The accounting policies of the Authority as far as possible have been developed to ensure that the accounts of the Authority are understandable, relevant, reliable and comparable, and free from material error or misstatement.

3.1.6 The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and certain categories of financial instrument.

3.2 Integrated Closure Team

3.2.1 As part of the LGSS restructure a new Integrated Closure Team has been formed. This oversees the preparation of accounts for Northampton Borough Council, Northamptonshire County Council, Cambridgeshire County Council and Milton Keynes Council.

3.2.2 When considering issues for Northampton Borough including accounting policies they have been reviewed along with those of the other authorities. This has led to improvements in the format of the accounts as detailed in Section 3.4 of this report.

3.3 Changes to Accounting Policies

3.3.1 There are four changes to the underlying accounting policies from the policies approved and included in the audited Statement of Accounts 2015/16.

3.3.2 IFRS 13 Fair value measurement was adopted in 2015-16 prescribing the methodology of valuation of assets and liabilities, which is set out in policy L. Surplus assets was omitted and has now been included as being measured at fair value. The value of Surplus Assets was not material in 2015/16 being only £326k in value therefore there was no requirement for this to be referred to in the Council's ISA260 report. It was however agreed with KPMG that this omission would be rectified as part of this annual review.

- 3.3.3 The review of policy L has also highlighted an error in the stated valuation methodology of Vehicles and Assets under Construction. This has been amended from fair value to depreciated historic cost for vehicles and historic cost for asset under construction. These asset categories have always been held on the newly stated basis therefore there is no financial change to the accounts as a result of this amendment.
- 3.3.4 The third change is due to the change in the format of the Comprehensive Income and Expenditure Statement (CIES) required by the Code of Practice for Local Authority Accounting in the United Kingdom 2016/17. The CIES shows revenue expenditure and income for the year, in line with proper practices. The format of the net cost of services within this core statement has followed a service analysis (known as SeRCOP) for a number of years. This service specific analysis allowed comparability between councils however it was in a different style to internal financial monitoring that followed a Directorate format.

The new code requires the format of the service analysis to change from SeRCOP to a Directorate format along the lines of that used to report monthly financial monitoring. This will make it reconcilable to the internal financial reporting to Council and be more familiar to members and readers of the accounts.

Policy C Cost of Services referred to SeRCOP and the allocation of support costs. This policy has therefore been renamed Overheads and Support Costs that are allocated to service segments in accordance with the authority's arrangements for accountability and performance.

- 3.3.5 In the unlikely event that any changes to these accounting policies are identified as part of the creation of the 2016/17 accounts, these will be brought back to the Audit Committee within the 2016/17 Draft Statement of Accounts at the July meeting.

3.4 Changes in the format of the accounts

- 3.4.1 As referred to in 3.3.4 above the most significant change which is being introduced in the 2016-17 Code of Practice is to the presentation of the Comprehensive Income and Expenditure Statement (CIES). The CIES shows revenue expenditure and income for the year, in line with proper accounting practice. Previous editions of the Code had required the Net of Cost of Services within the CIES to be broken down in to specific service headings. (Referred to as SeRCOP headings). This was to ensure that all authorities presented their statements in the same way, and to allow comparability between authorities. Whilst this allowed comparability from one authority to another it meant that the link between the Authority's monthly financial reporting (MFR) and the statutory accounts was difficult to follow, because the MFR is set out with the Authority's internal Directorate structure and the accounts are set out based on SeRCOP headings. The change to the Code for 2016-17 allows the Authority to display the Net Cost of Services within the CIES based upon its internal reporting structure rather than using SeRCOP headings. This means that the link between the MFR and the accounts position will be clearer for the reader of the accounts to follow. Please see **Appendix 2** for an example of how this change will look in the accounts.
- 3.4.2 Another change in the 2016-17 Code is the introduction of a new disclosure in the accounts called the Expenditure and Funding Analysis (EFA) (also

shown in **Appendix 2**). This partly replaces the segmental analysis shown in previous accounts. This statement and the accompanying disclosure notes are intended to provide reconciliation between the budget monitoring outturn position shown in the MFR and the accounting position shown in the CIES.

3.4.3 The review of the accounts across LGSS Councils has resulted in a number of improvements to the statement of accounts including a standard Narrative Report and Glossary. The core financial statements, including the CIES and Balance Sheet, are to be given more prominence nearer the front of the accounts. The more general items such as accounting policies are to be moved towards the rear of the document as they are usually required for reference purposes.

3.4.4 This review has also highlighted a number of notes to the accounts that are not material and can therefore be removed in accordance with the Code. This will speed up the production of the accounts and their exclusion will often remove the need to audit these notes. This will assist external audit in auditing the accounts within the reduced timeframe. The notes to be excluded include Publicity Costs and Building Control Costs.

3.4.5 Other notes have been removed by including more detail in the core financial statements making the accounts easier to understand. For example, the required detail is shown within the CIES and Cash Flow Statements rather than the reader having to cross reference to the notes to the accounts to see the detail. This is an area that Audit Committee members commented on when reviewing the 2015/16 accounts, and officers have responded to this where possible.

3.4.6 The above changes will reduce the size of the accounts by about ten pages.

3.5 Accruals de-minimus

3.5.1 Many authorities are currently considering increasing their accruals de-minimus as part of their plans to achieve the new reduced statutory reporting deadlines of 31 May for the draft accounts and 31 July for the final accounts with effect from the financial year 2017/18. An increased accruals level for manual accruals that aren't system generated reduces the volume of financial adjustments to the accounts, assisting in speeding up their production. An analysis of the volume and total value of manual accruals that would have been input to the 2015/16 accounts for different de-minimus levels is shown in the table below. Increasing the accruals limit for manual accruals to only doing those more than £10,000 would have halved the number of transactions whilst not having a material effect on the accounts:

	Current £1,000		£5,000		£10,000		£15,000		£20,000	
	£	No.	£	No.	£	No.	£	No.	£	No.
GF <£1k	9,795	50								
GF >£1k	506,979	195	419,569	127	324,878	97	306,470	81	210,484	73
HRA	(1,005,679)	28	(989,039)	22	(981,520)	21	(944,466)	18	(926,963)	17
Other	(767,086)	36	(751,209)	20	(723,591)	14	(713,234)	13	(713,234)	13
Total	(1,265,786)	259	(1,320,679)	169	(1,380,234)	132	(1,351,230)	112	(1,429,713)	103

3.5.2 A comparison has been carried out with other LGSS Councils and some neighbouring Councils of a similar size and type, with their de-minimus levels being between £5,000 and £15,000. This is pointing towards the Council's

current accruals de-minimus value being too low at £1,000. The consideration of increasing the accrual de-minimus was also recommended by KPMG as part of the 2015/16 ISA260 report.

- 3.5.3 It was therefore recommended to the S151 Chief Finance Officer to increase the accruals de-minimus level to £10,000. However the final decision taking into account the fact that external audit have rated the Council audit as high risk is to only increase the level to £5,000 for the 2016/17 accounts, with the level being reviewed again in future years.

3.6 Recommendations

- 3.6.1 The Committee approves the 2016/17 accounting policies as appended.
- 3.6.2 The Audit Committee notes that the S151 Chief Finance Officer as part of the closure of accounts guidelines will increase the accruals de-minimus from £1,000 to £5,000 for 2016/17.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The report agrees the accounting policies for Northampton Borough Council.

4.2 Resources and Risk

- 4.2.1 The Accounting Policies outline how the Council will account for all income, expenditure, assets and liabilities held and incurred during the financial year.
- 4.2.2 If the Council does not comply with the required standards there is a risk that its Statement of Accounts could receive an adverse audit opinion.
- 4.2.3 There are no resource requirements.

4.3 Legal

- 4.3.1 There are no legal implications arising from this report.

4.4 Equality

- 4.4.1 There are no equalities implications arising from this report.

4.5 Consultees (Internal and External)

- 4.5.1 These policies have been discussed with the Council's auditors, KPMG, who have confirmed they are in line with their expectations.

4.6 Other Implications

- 4.6.1 There are no other implications.

5. Background Papers

- 5.1 Statement of Accounts for Northampton Borough Council 2015/16.
- 5.2 Code of Practice for Local Authority Accounting in the United Kingdom 2016/17 Accounts.

- 5.3 Code of Practice for Local Authority Accounting in the United Kingdom 2016/17 Accounts – Guidance notes.
- 5.4 Service Reporting Code of Practice for Local Authorities 2016/17.

**Jon Lee, Head of Integrated Finance, LGSS
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Appendix 1 – Accounting Policies 201/17 (changes highlighted)

1.1 INTRODUCTION

The accounting policies for the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting. Where there is no specific guidance in the CIPFA Code, the Authority has developed its own accounting policy, which is aimed at creating information, which is:

- Relevant to the decision making needs of users; and
- Reliable, in that the financial statements:
 - Represent faithfully the financial position, financial performance and cash flows of the entity;
 - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
 - Are neutral i.e. free from bias;
 - Are prudent; and
 - Are complete in all material respects.

This document outlines how Northampton Borough Council (the Council) will account for all income, expenditure, assets and liabilities held and incurred during the 2016/17 financial year.

The accounting policies of the Authority are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authorities accounts.

The accounting policies of the Authority as far as possible have been developed to ensure that the accounts of the Authority are understandable, relevant, reliable and comparable, and free from material error or misstatement.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and certain categories of financial instrument.

A **Glossary of Terms** can be found in section I.

1.2 ACCOUNTING PRINCIPLES

a Going Concern

The Authority prepares its accounts on the basis that the Authority is a going concern; that is that there is the assumption that the functions of the Authority will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Authority would still account on the basis of going concern as the provision of services would continue in another authority.

b Accruals Concept

The Authority accounts for income and expenditure in the period to which the service to which it relates has taken place, rather than when cash payments are received or made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet respectively. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet respectively and the Comprehensive Income and Expenditure Statement adjusted accordingly.

c ~~Costs of Services~~ Overheads and Support Costs

The costs of overheads and support services are charged to service segments in accordance with the authorities arrangements for accountability and financial performance.

~~Internal service costs (e.g. Human Resources) are apportioned across the core service areas to represent the total cost of delivering that service to the public.~~

~~This is in accordance with the costing principals of the CIPFA Service Reporting Code of Practice 2015/16 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to benefits received, with the exception of:~~

- ~~• Corporate and Democratic Core – costs relating to the Council’s status as a multi-democratic organisation.~~
- ~~• Non-Distributed Costs – the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.~~

~~These two cost categories are accounted for as separate headings in the Income and Expenditure Account as part of the Net Cost of Services.~~

d Value Added Tax

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts due / owed.

e Changes in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Authority will disclose in the notes to the accounts:

- The nature of the change in accounting policy;
- The reasons why applying the new accounting policy provides reliable and more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;

- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Authority will also disclose information relating to an accounting standard, which has been issued but not yet adopted.

f Previous Year Adjustments

Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- Was available when financial statements for those periods were authorised for issue; and
- Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights, or misinterpretations of facts, and fraud.

Where those errors are thought to be material, an adjustment will be entered into the financial statements comparative year balances, and the columns headed restated. In addition full disclosure as to the nature, circumstance, and value of the adjustment will be disclosed in the notes to the accounts.

g Events after the Balance Sheet date

Where there is a material post balance sheet event, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will have been shown in the accounts.

h Exceptional and extraordinary items and prior period adjustments

Exceptional and extraordinary items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

i Contingent assets and liabilities

Where the Council has a contingent asset or liability this will be disclosed as a note to the accounts.

Capital Accounting

j Recognition of Capital Expenditure (de-minimis Policy)

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets when all four of the following tests are met:

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.

- Assets expected to be used for more than one financial period.
- Assets where it is expected that future economic benefit will flow to the Authority.
- Assets where the cost can be measured reliably.

The capital cost of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Authority incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.
- Subsequent expenditure that will substantially increase the market value of the asset.
- Subsequent expenditure that will substantially increase the extent to which the Authority can use the asset for the purpose, or in conjunction with the functions of the Authority.

The Authority has a general de-minimis level of £6,000 for capital expenditure purposes. Where an asset has been acquired for less than £6,000 but has been funded by ring fenced capital funding, this will be treated as capital.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

k Non-Current Asset Classification

The Authority manages its assets in the following categories:

- **Intangible Assets.**

In line with International Accounting Standard 38 (IAS 38), the Authority recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in accounting policy j.

- **Property, Plant and Equipment Assets**

Property Plant and Equipment Assets are subcategorised into Operational Land and Building, Community Assets, Vehicles Plant and Equipment, Infrastructure Assets, Assets Under Construction and Non-Operational Assets.

- **Land and/or Buildings Assets**, in line with IAS 16, are recorded, valued and accounted for based on their significant components.

- **Community Assets** are assets that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.

Test for Community Assets:

- Is the intent to hold the asset forever?
- Does the asset have an indeterminable useful life?
- Are there restrictions on disposal?

The answers for the first two questions have to be yes, while an affirmative answer to the third question is not obligatory but may help determine the correct classification.

- **Infrastructure Assets**, include all tangible (physical) assets required within the authorities land drainage system, and cemetery roadways. There is no prospect for sale of infrastructure assets; expenditure is only recoverable through continued use of the asset.
- **Vehicles, Plant and Equipment Assets and Assets under Construction** are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.
- **Surplus Assets** are assets, which the Authority no longer operates from, however do not meet the definition of held for sale. All surplus assets are treated in the same way as operational assets of the same type (valuation, depreciation, recognition etc).
- **Heritage Assets** are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that make it important to ensure that they are preserved for future generations. They may be any kind of asset including buildings, works of art, furniture, exhibits, artefacts, etc. or intangible assets such as recordings of significant historical events.

As such, assets in this category are held principally for their contribution to knowledge and/or culture.

- **Investment Property Assets** are items of land and / or buildings held by the Authority solely for the purpose of rental income generation or capital appreciation or both.

Therefore, where there is a service of the Authority being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Some Assets Under Construction will also be classified as Investment Property Assets where the intended eventual use is rental income generation or capital appreciation.

- **Assets Held for Sale**

The Authority will classify assets as held for sale where:

- The asset is in the condition required for sale and is vacant.
- The assets sale is highly probable.
- The asset has been advertised for sale and a buyer sought.
- The completion of the sale is expected within 12 months.

Assets which become non-operational / surplus which do not meet all of the requirements set out as assets held for sale continue to be classified and accounted for as their previous category. In addition, if the asset later no longer meets the criteria, it is restored to its previous classification and all transactions, which would have occurred, shall be retrospectively applied as though the asset had never been held for sale. Investment properties, which become available for sale, remain as Investment Properties.

Assets meeting the criteria as held for sale are held as current assets on the balance sheet as income is expected within 12 months.

It is possible that assets meet the criteria to be held for sale; however a change in circumstance beyond the control of the Authority means that the sale is delayed beyond 12 months. In these instances the Authority follows the policies outlined for assets held for sale; however disclosure of the value for these assets is within non-current assets.

I **Non-Current Asset Valuation Methodology**

The various classifications of assets as outlined in accounting policy k are valued on differing basis. Where not explicitly stated otherwise, property revaluations are completed by an RICS qualified valuer, on a 5 year rolling programme i.e. 20% of the Council's assets are revalued each year. Valuations are carried out in accordance with IFRS Fair Value Measurement.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the revaluation reserve. This is then reflected in the MIRS as a revaluation gain. Where there is a revaluation, which results in a lower than carrying amount valuation, this is treated in line with accounting policy m impairment of assets. Exceptionally, gains might be credited to the Surplus/Deficit on Provision of Services where they arise from the reversal of a loss previously charged to a service.

Valuations are completed as follows:

- **Intangible Assets** - the Authority recognises Intangible Assets at cost. The Authority will revalue intangible assets annually where there is determinable market value for the asset.
- **Property Plant and Equipment** - Property Assets are held at fair value, which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of exiting use value (EUV) in accordance with IFRS 13. As a matter of last resort, where no other valuation method can be used, depreciated replacement cost is used.

- **Council Dwellings** – Land and building structure are valued at EUV for Social Housing, being 34% of market value. Individual components are valued at Depreciated Historic Cost.
- **Plant Vehicles and Equipment** ~~Vehicles and Assets under construction~~ within PPE are held **at depreciated historic cost** fair value.
- **Assets Under Construction** – are held at historic cost.
- **Community Assets** - the Authority recognises Community Assets at depreciated historic cost (not revalued).
- **Surplus Assets** – are held at fair value.
- **Infrastructure Assets** - the Authority recognises Infrastructure Assets at depreciated historic cost (not revalued).
- **Investment Property Assets** - Investment Properties are annually revalued at fair value, which is to be interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. This includes investment property under construction. The fair value of investment property held under a lease is the lease interest.
- **Assets Held for Sale** - Assets held for sale are held at fair value.
- **Heritage Assets** – Heritage Assets are held at valuation where practicable (and at depreciated historic cost where it is not practicable to obtain a valuation).

m Impairment of Non-Current Assets

The accounting policy has been created in accordance with IAS 36.

Impairment is the amount to which the carrying amount of an asset exceeds the recoverable amount.

At the end of each reporting period the Authority assesses whether there is any indication that an asset may be impaired

The Authority recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an assets market value during the period;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Authority to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Authority operates.

Where there has been a previous revaluation taken to the revaluation reserve, an impairment up to that value would reverse the previous revaluation. Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the movement in reserves statement and charged to the capital adjustment account.

n Disposal of Non-Current Assets

Where an asset is identified as surplus to requirements, and meets the definition of an asset held for sale (see note k) it will be accounted for in accordance with note k, where an asset does not meet the classification of available for sale it will be tested for impairment, prior to being made available for disposal. There will be no impairments at the point of disposal. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts are credited to the Useable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the capital adjustment account via the movement in reserves statement.

Sale proceeds below £10k are below de-minimis and are credited straight to the Comprehensive Income and Expenditure Statement.

o Depreciation / Amortisation Methodology

Depreciation is provided for on all completed assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated using the Straight-Line method over the determined life of the asset. The Council depreciates assets in the year of acquisition and disposal. This is in accordance with regulations. Where an asset has major components with different estimated useful lives, these are depreciated separately.

Residual values

Asset Type	Assumed Residual Value
Property Assets	Land Value only
Vehicles, Plant and Equipment	Nil
Intangible Assets	Nil

Useful Economic Lives of assets are:

Asset Group	Useful economic Lives (UELs)
Council Dwellings	50 years
Housing Buildings	10-70 years*
Other Buildings	4-69 years*
Land	Not depreciated
Community Assets	15-50 years*
Heritage Assets	Not depreciated*
Infrastructure Assets	25 years
Intangible Assets	3-10 years*
Vehicles, Plant and Equipment	3-25 years*
Investment Properties	Not depreciated
Assets Held for Sale	Not depreciated
Surplus Assets	5-60 years*

* Depending on the nature of the specific asset

In the Year of acquisition and disposal, the Authority charges a quarter of the annual depreciation where the asset is owned on the first day of each financial quarter.

Individual components within Council Dwellings are depreciated separately from the building structure, using the following lives:

Asset Group	Useful Economic Lives (UELs)
Kitchens	20 years
Bathrooms	30 years
Windows and Doors	30 years
Heating Systems	20 years
Lights and Electric	25 years

p Component Accounting

For **Council Dwellings** the following components are valued, enhanced and depreciated separately – Kitchen, Bathroom, Windows and Doors, Heating Systems and Lights and Electrics. No other components are material and are therefore treated as part of the building structure. The separately identified

components will be depreciated over their useful lives. They will be derecognised when replaced by new components.

For **all other assets**, components will only be shown separately in the asset register if they are significant i.e. if they cost more than £250,000 and their cost amounts to more than 25% of the total cost of the asset. Where the value of an asset is not known, Gross Book Value will be used as a proxy for the determination of significant components.

Land and buildings will be separately valued. The building component will be fully depreciated over its useful life, the residual value of the whole asset being the land component.

The nature of property assets is such that any revaluation relates mainly to the land and structure so will not be passed down to any individual components that have been identified.

Non-dwelling assets will be considered for componentisation if they are material, i.e. have a total building valuation in excess of £1m. Components will only be separately valued if they are significant, i.e. above the de-minimis level of 25% detailed above.

Components will only be separately valued if they are significant, i.e. above the de-minimis level detailed above.

Components will be derecognised if their replacement is deemed to be significant under this policy, i.e. if the cost of it is more than £250,000 and amounts to more than 25% of the total cost of the asset.

Where significant components, as defined above, have been separately recorded on the Asset Register they will be depreciated over their useful lives.

q Leases

In line with the interpretation IFRIC 4, the Authority recognises a lease to be any agreement, which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes; leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

r Defining a Finance Lease

A finance lease is where substantially all of the risks and rewards incidental to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase).
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised.

- If the lease term is for the major part of the economic life of the asset even if title is not transferred.
 - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.
 - The Authority recognises major part to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
 - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
 - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.
 - The Authority recognises “substantially all” to mean 90% of the value of the asset. In some circumstances, a level of 75% can be used if the Council believes that using this level will give a result that better reflects the underlying transaction.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Authority as to whether an asset is operating or finance.

s Defining an Operating Lease

Any lease which is not a finance lease is recognised by the Authority to be an operating lease.

t Lessee Accounting for a Finance Lease

Where the Authority is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Authority will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made. Lease payments made to the lessor, are split between the repayment of borrowings, and interest, which is charged to the Income and Expenditure account.

u Lessor Accounting for a Finance Lease

Where the Authority is the lessor for a finance lease, the asset is not recognised in the asset register; however a long-term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the debtor, and finance income credited to the Comprehensive Income and Expenditure Statement as interest receivable.

v Lessor Accounting for an Operating Lease

Where the Authority is the lessor for an operating lease, normally the asset is classified as an investment property. Any rental income is credited to the relevant service income.

w Lessee Accounting for an Operating Lease

Costs associated with operating leased assets where the Authority is the lessor are charged immediately to the relevant revenue service expenditure within the net cost of services on an accruals basis.

x Service Concession Agreements (PFI and other similar contracts)

PFI and similar arrangements are usually agreements with the private sector for the construction or enhancement of fixed assets needed to provide services to a public sector body. PFI and similar contracts are assessed against criteria within IFRIC 12 (Service Concession Arrangements) to determine whether the risks and rewards incidental to ownership lie with the Authority or the contractor.

Where these lie with the contractor, all payments made during the life of the contract are chargeable to revenue as incurred.

Where these lie with the Authority, the Authority shall assess them against two tests:

- a) The local authority controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price;
and where
- b) The local authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where test a) is met but not test b) the arrangement is reviewed to see if it contains an embedded lease, in which case this will be accounted for in accordance with the Authority's leasing policies.

Where test b) is met but not test a) the Authority will recognise the difference between the expected value of the fixed assets at the end of the arrangement and the amount (if any) it will have to pay the contractor then.

Where both tests are met the Authority will recognise a Property, Plant or Equipment asset in the Balance Sheet for value of the construction costs. Once recognised this asset is treated in line with the Authority's other PPE assets. A corresponding long-term liability of equal value is also recognised.

Payments made during the life of the contract are split into finance costs, capital costs and service costs. The split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

PFI Credits are treated as general revenue government grants.

y Capital Grants and Contributions

The Authority recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a capital grant received in advance. Any grant, which had met the recognition criteria but had not been received, would be shown in the Comprehensive Income and Expenditure Account with a corresponding debtor. This is in line with the accruals concept policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the relevant service revenue account within the net cost of services.

In order to not impact on the level of Council Tax, the Authority removes the credit from the General Reserves through the Movement in Reserves Statement, and crediting to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

Relevant Government Grants are treated in accordance with this policy.

z Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions or that is capital in nature but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

aa Minimum Revenue Provision (MRP)

The Council has implemented the 2012 CLG Minimum Revenue Provision (MRP) guidance, and assessed their MRP in accordance with the main

recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Where a historical debt liability was created prior to 1st April 2008, MRP will be charged at the rate of 4% on the reducing balance, in accordance with Option 1 of the guidance, the “regulatory method”.

The debt liability relating to capital expenditure incurred from 2008-09 onwards is subject to MRP under option 3, the “asset life method”, and is charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, is related to the estimated life of that building.

Estimated life periods are determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council generally adopts these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives are assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it is grouped together in a manner that reflects the nature of the main component of expenditure and is only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council seeks to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts are used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt is based on the lives of the remaining asset for which borrowing was undertaken.

MRP is charged from the financial year after the asset comes into use. In cases where the Council has approved the use of capital receipts to fund the asset, this funding is assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge is made.

Where finance leases are held on the balance sheet, the MRP is set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.

The Council has taken advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of the transfer to the balance sheet of finance leases previously treated as operating leases under the introduction of IFRS.

ab Capital Reserves

The Authority holds capital reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund

capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted for through the Movement in Reserves Statement.

Revenue Accounting

ac Recognition of Revenue Expenditure.

The Authority recognises revenue expenditure as expenditure, which is not capital.

ad Employee Costs

In accordance with IAS 19, the Authority accounts for the total benefit earned by employees during the financial year.

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

Short-term employee benefits:

- **Salaries and Wages** - The total salary and wages earned by employees within the financial year have been charged to the revenue expenditure account. Where the amount accrued exceeds the amount paid at the 31st March, a creditor will be reflected in the accounts.
- **Leave Owed** - The Authority allows employees to earn time off in one period and carry forward amounts of accrued leave into the following period, such as annual leave, flexi-time and time off in lieu. The cost associated with this leave is attributable to the period in which it is earned, rather than when it is exercised. As such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet.
- **Maternity/Paternity Leave** - The obligation upon the Authority to allow maternity leave and pay maternity pay occurs in mid stages of pregnancy. The cost associated with this leave is attributable to the period in which the obligation is created, rather than when it is exercised. As such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet for time off owed at the 31st March.

Termination Benefits

- **Redundancy Costs** - The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies, which has been approved. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Authority recognises the costs associated with this in the service revenue expenditure and create a creditor in the Balance Sheet.

In the case of an offer to encourage voluntary redundancy, the Authority has recognised the estimated cost based on the expected number of employees taking the offer.

- **Pensions Costs**

Employees of the Council are members of the Local Government Pension Scheme administered by Northamptonshire County Council. The Scheme provides benefits to members (retirement lump sums and pensions) earned as employees of the Council.

The Local Government Pension Scheme is a defined benefit scheme. The liabilities of the scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of earnings for current employees.

Pension liabilities are measured using the projected unit method and discounted at the balance sheet date rate of return on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of spot yields on AA rated corporate bonds.

The change in the net pension liability is analysed into seven components:

- Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.
- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.
- Gains/losses on settlements and curtailments the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Comprehensive Income and expenditure.
- Contributions paid to the Northamptonshire County Council Pension Fund – cash paid as employers contributions to the Pension Fund.

In relation to retirement benefits, statutory provisions require the General Reserves to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments** - the Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ae Revenue Grants and Contributions

Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (receipts in advance). Any grant, which had met the recognition criteria but had not been received, would be shown as a debtor. This is in line with the accruals concept policy.

Revenue grants will either be received to be used only for a specific purpose, or can be used for general purpose. Those for a specific purpose are recognised as income in the relevant service revenue account (wherever the related expenditure is incurred) within the net cost of services. Those, which are for general purpose, are shown in the foot of the Comprehensive Expenditure and Income Statement, before the net surplus or deficit.

af Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Authority recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision.

Estimated settlements are reviewed at the end of each financial year and adjustments with the service revenue account are made as required.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

ag Revenue Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure

to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax in that year for the expenditure.

The Council maintains earmarked reserves for a number of reasons including: -

- Setting aside money for future policy initiatives;
- To finance expenditure on future projects;
- To mitigate the impact between financial years of expenditure and income on general working balances;
- To mitigate the effect of specifically identified significant risks; and
- To protect the Authority against unexpected events and change in legislation.

The Council's risk-based assessment of the required level of General Fund working balance is shown within the Movement in Reserves Statement. The level of general working balance is considered reasonable due to the mitigation of some risks through the holding of earmarked reserves.

Certain reserves are kept to manage the accounting processes for tangible fixed assets, retirement benefits, and financial instruments and these reserves do not represent usable resources for the Council. The usable Earmarked Reserves are set out in the notes to the Statement of Accounts.

ah Council Tax Recognition

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The Authority's share of the accrued Council Tax income is obtained from the information that is required by billing authorities in the production of the Collection Fund Statements.

If the net cash paid to the Authority in the year is more than its proportionate share of net cash collected from Council Tax debtors in the year the Authority will recognise a credit adjustment for the same amount in creditors after adjusting for the previous year brought forward and vice versa if net cash paid is less than the proportionate share.

The Cash Flow Statement includes within operating activities the net Council Tax cash received from the Collection Fund in the year (i.e. the precept for the year plus its share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of its share of the previous year's Collection Fund deficit). The difference between the net cash received from the Collection Fund and the Authority's share of cash collected from Council Tax debtors by the billing authority in the year is included within financing activities in the Cash Flow Statement.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to

the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

ai Inventories and long-term contracts

Inventories include goods held for future use. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventories are recorded in terms of average cost. Work in progress on long term contracts is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works. The Council currently does not have any contracts that fulfil this criterion.

aj Provisions for bad and doubtful debts

In order to suitably reflect the varied nature of debtors within the Council, the basis for providing for bad debts is specific to the circumstances in each individual department. The general policy followed is:

- No public sector debt is provided for (other Local Authorities, NHS, or Central Government).
- Aged debt is reviewed and a reasonable percentage provided for.

Significant individual invoices are reviewed and wholly provided for where it is thought to be necessary.

Treasury Management

ak Definition of Treasury Management Activities

The Authority has adopted the following definition of Treasury Management activities:

The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Authority regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principals of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

al Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus any interest accrued to 31st March and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Reserves to be spread over future years.

The Authority has a policy of spreading the gain/loss over the term of the replacement loan subject to a minimum period of 10 years with the case of discounts. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

am Financial Assets

Financial assets are classified into two types:

- **Loans and receivables** - assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31st March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations or individuals at less than market rates (soft loans).

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the

amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Reserves is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

- **Available-for-sale assets** - assets that have a quoted market price and/or do not have fixed or determinable payments.

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Values are based on the following principles:

- Instruments with quoted market prices the market price.
- Other instruments with fixed and determinable payments discounted cash flow analysis.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Movement in Reserves Statement. The exception is where impairment losses have been incurred these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

- **Financial assets at fair value through income and expenditure** – The council does not generally deal in derivatives but may take out forward loans from time to time as part of its overall Treasury Management Strategy.

an **Interests in Companies and Other Entities**

The Council owns one subsidiary, Northampton Partnership Homes, and has prepared Group Accounts, see policy ar. The Council has one Joint

Arrangements that is Not an Entity (JANEs), the Joint Planning Unit (JPU): this is not material to the accounts.

ao Business Improvement Districts

The Council collects Business Rates in respect of two Business Improvement Districts (BIDs), the first based on the Brackmills Industrial Estate geographic area, and the second based on the Town Centre geographic area. For both of these BIDs, the Council collects the business rates and pays the amount collected over to the BID on a monthly basis. The money collected is treated as a creditor in the Council's accounts to reflect the fact that the cash received will be paid to the BID and any balances are only there because of a timing issue.

ap Cash and Cash Equivalents

Cash is represented by notes and coins held by the Authority and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts only arise as part of the Council's cash management and are therefore netted off against Cash and Cash Equivalents.

Bank overdrafts will only be shown separately as liabilities in the Balance Sheet where they are not an integral part of the Council's cash management; no such instances currently exist that would require separate disclosure from cash and cash equivalents.

aq General Government Grants

General government grants and contributions in the form of Revenue Support Grant, Retained Business Rates, New Homes Bonus, etc. are disclosed on the face of the Comprehensive Income and Expenditure Statement in the line Taxation and Non-Specific Grant Income.

ar Group Accounts

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a company, and has concluded that the requirement to produce Group Accounts applies in relation to its interest in Northampton Partnership Homes. In the Council's single-entity accounts, the interest in the company is recorded as financial assets at cost less any provisions for losses.

- **Previous presentation of the Comprehensive Income & Expenditure Statement (CIES):**

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Central Services to the Public	x	(x)	xx
Cultural, Environmental & Planning			
Culture & Related Services	x	(x)	xx
Environment and Regulatory Services	x	(x)	xx
Planning Services	x	(x)	xx
Highways, Roads & Transport	x	(x)	xx
Housing			
Housing Revenue Account	x	(x)	xx
General Fund Housing	x	(x)	xx
Corporate & Democratic Core - HRA	x	(x)	xx
Corporate & Democratic Core - GF	x	(x)	xx
Non Distributed Costs	x	(x)	xx
Cost Of Services	x	(x)	x
Other Operating Expenditure	x	(x)	xx
Financing and Investment Income and Expenditure	x	(x)	xx
Taxation and Non-Specific Grant Income	x	(x)	xx
(Surplus) or Deficit on Provision of Services	x	(x)	x
(Surplus) or Deficit on Revaluation of Property, Plant and Equipment assets			xx
Actuarial (gains) / losses on pension assets / liabilities			xx
Other gains and losses			xx
Other Comprehensive Income and Expenditure			xxx
Total Comprehensive Income and Expenditure			xxx

Note 1

Note 1: The service headings within this section of the CIES were prescribed by CIPFA in the Service Reporting Code of Practice (SeRCOP). CIPFA also prescribed what was to be included within each service heading.

This enabled comparability between accounts prepared by different authorities, but meant it was difficult to compare the statutory accounts in the Authority’s monthly financial monitoring as this is prepared on a Directorate basis.

- **Presentation of the Comprehensive Income & Expenditure Statement (CIES) under the 2016-17 Code:**

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Regeneration, Enterprise & Planning	x	(x)	xx
Housing	x	(x)	xx
Borough Secretary	x	(x)	xx
Customers & Communities	x	(x)	xx
Central Service Budgets	x	(x)	xx
Corporate Budgets	x	(x)	xx
Cost Of Services	x	(x)	x
Other Operating Expenditure	x	(x)	xx
Financing and Investment Income	x	(x)	xx
Taxation and Non Specific Grants	x	(x)	xx
(Surplus) or Deficit on Provision of Services	x	(x)	x
(Surplus) or Deficit on Revaluation of Non Current Assets			xx
(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets			xx
Actuarial (gains) / losses on pension assets / liabilities			xx
Other gains and losses			xx
Other Comprehensive Income and Expenditure			xxx
Total Comprehensive Income and Expenditure			xxx

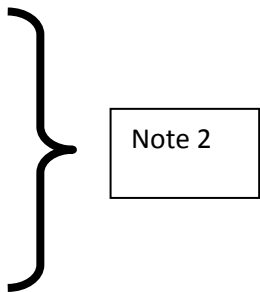
Note 2

Note 2: The 2016-17 Code removes the requirement to use the SeRCOP headings. The Cost of Services can now be split based upon the Authority's internal reporting lines. This it can be shown using Directorate headings. This should allow an easy read-across between the Authority's Monthly Financial Reporting (MFR) and the accounts.

Note 3: The prior year CIES figures for 2015-16 will need to be restated into this new format. This is purely a presentational change. The bottom line figure is the same under each presentation method.

- Expenditure and Funding Analysis – new disclosure for 2016-17

	Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Regeneration, Enterprise & Planning	x	x	x
Housing	x	x	x
Borough Secretary	x	x	x
Customers & Communities	x	x	x
Central Service Budgets	x	x	x
Corporate Budgets	x	x	x
Net Cost Of Services	x	x	x
Other Income and Expenditure	x	x	x
Surplus or Deficit	x	x	x
Opening General Fund Balance	x		
Less/Plus surplus or deficit on General Fund in Year	x		
Other gains and losses	x		
Closing General Fund Balance	x		



This is a new disclosure which will be included in the 2016-17 accounts, along with some supporting disclosures. It is intended to show how the Authority’s annual expenditure and funding is split across each service segment (in the left hand column), and how this compares with the resources consumed/expanded by the Authority in accordance with generally accepted accounting practice (the right hand column).

<p>Appendices</p> <p>1: LGSS Auditor Report</p>



AUDIT COMMITTEE REPORT

Report Title	Internal Audit (LGSS) Progress Update
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 th March 2017
Policy Document:	No
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

- 1.1 To inform the Audit Committee on the current plan of internal audit work to be carried out by LGSS during 2017/18, and progress against the 2016/17 plan.

2. Recommendations

- 2.1 It is recommended that the Audit Committee note this report.

3. Issues and Choices

3.1 Report Background

- 3.1.1 LGSS Internal Audit are the 'in house' internal audit service providing assurance to LGSS management on risks and issues surrounding any systems operated by, or services provided by LGSS.
- 3.1.2 The LGSS internal audit are providing assurance to NBC on those processes, systems and procedures for services provided by LGSS to NBC.
- 3.1.3 The attached LGSS internal audit report (appendix 1) provides an update on delivering the audit plan for 2016/17 and the planned audit coverage for 2017/18.

3.2 Choices (Options)

- 3.2.1 The report is just for noting, however audit committee have the opportunity to ask questions direct to the auditors.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 None to report.

4.2 Resources and Risk

- 4.2.1 None to report at present.

4.3 Legal

- 4.3.1 None to report at present.

4.4 Equality

- 4.4.1 Not applicable.

4.5 Consultees (Internal and External)

- 4.5.1 Both LGSS Internal Audit and LGSS Finance have discussed with PwC areas of audit work coverage.

4.6 Other Implications

- 4.6.1 None.

5. Background Papers

- 5.1 None to date.

Glenn Hammons
Chief Finance Officer, Telephone 01604 366521

**REPORT TO AUDIT COMMITTEE
NORTHAMPTON BOROUGH COUNCIL**

6th March 2017

LGSS INTERNAL AUDIT UPDATE 2016-17 AND PLAN 2017-18

Background

Many financial activities transferred from Northampton Borough Council to LGSS during the 2013/14 financial year. It was agreed with the S151 Officer and the council's internal auditors (PwC) that where LGSS have the responsibility to undertake the functions, LGSS Internal Audit would complete the assurance work relating to LGSS functions, whilst PwC would continue to audit those aspects which remain in the direct control of the council. This approach has been used each year and we have worked with PwC to plan and undertake our work to enable us to provide the assurance opinions, whilst minimising duplication of work.

Update on 2016-17 Reviews

Fieldwork is now complete on the high level control reviews of Council Tax, NNDR and Benefits and the work is being reviewed. Walkthroughs of the controls for Accounts Receivable and Accounts Payable are almost complete, with General Ledger and IT system access to follow on from these shortly. The assurance reports will be formally reported at the next Audit Committee, by which time all of the work will have been finalised and any required actions agreed.

2017-18 Audit Plan - LGSS

Since the January 2017 Audit Committee we have met with the NBC Finance Business Partner and the PwC internal auditors to plan the work to be undertaken in 2017-18.

Having considered the work undertaken in 2016-17, the issues arising from the external audit ISA260 report and the requirements of the NBC Section 151 Officer we have devised a

draft 2017-18 plan of audit work to provide 3rd party assurance to NBC on the key financial processes operated by LGSS.

The following audits are proposed to be undertaken by LGSS internal audit for 2017-18:

- Follow up of 2016-17 agreed recommendations
- Accounts Receivable
- Accounts Payable
- General Ledger
- Council Tax (High level controls)
- NNDR (High level controls)
- Housing Benefits (High level controls)

We work closely with PwC internal auditors to provide adequate assurance without duplication of effort. Audits of Accounts Receivable, and Accounts Payable are shared between LGSS and PwC internal audit to ensure complete coverage. Following the transfer of the service back to NBC, Payroll assurance will be completed by PwC internal audit.

Timescale

It has been agreed that our 3rd party assurance work can be undertaken earlier in the financial year and it is therefore proposed to complete all work on this plan by 31st January 2018.

Appendices

- 1: PwC Progress Report
- 2. PwC Audit Plan 2017/18



AUDIT COMMITTEE REPORT

Report Title	Internal Audit (PwC) Update Report
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 th March 2017
Policy Document:	No
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

- 1.1 To inform the Audit Committee on progress against the 2016/17 plan and the development of the draft 2017/18 plan of internal audit work to be carried out by PwC.

2. Recommendations

- 2.1 Audit Committee are asked to note the progress against the 2016/17 plan.
- 2.2 It is recommended that the Audit Committee approve the approach and development of the draft 2017/18 internal audit plan.

3. Issues and Choices

3.1 Report Background

- 3.1.1 As part of their engagement as internal auditors PwC provide regular updates to the Audit Committee of progress against planned work and any issues during the year.
- 3.1.2 The progress report is attached as **Appendix 1** and contains the findings for the final audit report issued on the Planning Service which had three areas of medium risk identified and one of low risk.

3.1.3 PwC have been working with Management Board to agree their proposals for developing the 2017/18 Internal Audit Plan, and the areas to be covered are detailed in **Appendix 2**. This will form the basis for producing a detailed plan which will be brought to the next Audit Committee.

3.2 Choices (Options)

3.2.1 The audit committee have the opportunity to ask questions direct to the auditors and could request that revisions be made to the draft plan.

4. Implications (including financial implications)

4.1 Policy

4.1.1 None to report.

4.2 Resources and Risk

4.2.1 None to report at present.

4.3 Legal

4.3.1 None to report at present.

4.4 Equality

4.4.1 Not applicable.

4.5 Consultees (Internal and External)

4.5.1 Both LGSS Internal Audit and LGSS Finance have discussed with PwC areas of audit work coverage, and the draft plan has been discussed in detail with the council's management board.

4.6 Other Implications

4.6.1 None.

5. Background Papers

5.1 None to date.

Glenn Hammons
Chief Finance Officer, Telephone 01604 366521

Internal Audit Progress Report

Northampton
Borough Council

March 2017

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Appendix 2: Previous internal audit recommendations	6

Distribution List

For information	Audit Committee
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Introduction

Purpose of this report

We are committed to keeping the Audit Committee up to date with Internal Audit progress and activity throughout the year. This summary has been prepared to update you on our activity since the last meeting of the Audit Committee and to bring to your attention matters that are relevant to your responsibilities as members of the Authority's Audit Committee.

2016/17 Internal Audit Plan Progress

The draft 2016/17 Internal Audit Plan was presented and approved by the Audit Committee at its meeting on the 27 July 2016. The Internal Audit Plan sets out the risks that were identified as part of the planning process, together with the targeted work to be performed in order to address the identified risks. We report back to you on any changes to the assessment of audit risks and on the work undertaken in response to the risks identified.

We have continued our Internal Audit fieldwork and are pleased to report field work has concluded in the following areas:

- Risk Management;
- Northampton Town Football Club;
- Economic Development & Regeneration;
- Planning;
- Environmental Health & Licencing; and
- Housing Options.

We also have work planned in the following areas:

- Private Sector Housing;
- Partnerships and Communities; and
- Key financial system controls.

A detailed assessment of our performance against the Internal Audit Plan, tracking assignments undertaken and planned activity is shown in Appendix One. At the time of writing this report we have completed 202 days of the 219 planned audit days.

Changes to the 2016/17 Internal Audit Plan

Our original internal audit plan included 10 days to deliver a review into the Customer and Cultural Services area. We have agreed with Officers to remove this review from the current internal audit plan. The available 9 days will be used to facilitate the completion of other reviews included within the Internal Audit Plan.

Activity and progress

Final reports

Since our previous Internal Audit Progress Report, we have issued final reports for the following reviews performed in accordance with the 2016/17 Internal Audit Plan:

- Planning (medium risk)

We have summarised the main findings from the reports below:

Planning

We identified the following findings following conclusion of our testing:

- **Lack of reporting, monitoring and targets (Medium risk):** the Council are not currently reporting on whether they are in compliance with the statutory timescales owing to issues in extracting this information from their system. No other reporting functionality or key performance indicators are reported on within the department;
- **Building Control strategy (Medium risk):** whilst there is a new strategy in place, there are currently no defined plans in place to determine how this strategy will be achieved. There has been no allocation of responsibilities and there is a lack of evidence to demonstrate the strategy has been endorsed by senior officers;
- **Documentation and retention of information (Medium risk):** testing of a sample of 25 applications identified a number of issues with the level of documentation and retention of information. This included evidence to demonstrate why specific fees had been charged, documentation supporting the application and evidence to demonstrate who had dealt with the application; and
- **Individually determined fees (Low risk):** individually determined fees are used for larger pieces of work and are set by the Senior Building Control Manager and Building Control Surveyor. There is currently no review by a separate officer to assess the quoted price for reasonableness and to ensure that the fees calculated are appropriate.

Draft reports

We have completed the audit fieldwork and prepared draft reports for the following reviews performed in accordance with the 2016/17 Internal Audit Plan. We are in the progress of finalising these reports and will report the findings at the next meeting of the Audit Committee.

- Housing options

Planned fieldwork

Work is planned in the following areas:

- **Private Sector Housing, Partnerships & Communities and Core Financial System Controls:** scoping meetings have been held and terms of reference, including timescales agreed. Fieldwork will be undertaken during March 2017.

Additional time taken to complete the review examining the internal arrangements within the Council for managing Northampton Town Football Club loan and providing lessons learnt has used a substantial amount of the allocated internal audit days. We are in discussions with officers to extend the audit provision to support delivery of the remainder of the internal audit plan to deliver the three planned reviews.

Appendix 1: Detailed progress tracker

<i>Ref</i>	<i>Auditable Unit</i>	<i>Indicative number of audit days*</i>	<i>Actual audit days to date</i>	<i>Proposed fieldwork dates</i>	<i>Scoping meeting date</i>	<i>Proposed draft report date</i>	<i>Proposed management response date</i>	<i>Proposed final report date</i>	<i>Audit Committee reporting date</i>
A1	Contract management: LGSS review	20	-	Q1-2	Removed from the Internal Audit Plan				
A2	Risk management	10	10	Q1-2	Work concluded				
A3	Business Continuity	10	-	Q3	Removed from the Internal Audit Plan				
A4	Governance: Corporate Policy	10	-	Q3	Removed from the Internal Audit Plan				
A5	Performance Management	10	-	Q3	Removed from the Internal Audit Plan				
A6	NTFC	20	100	Q1	Work ongoing from 15/16	August 2016	September 2016	November 2016	November 2016
B1	Economic development and regeneration	10	10	Q4	1 st August 2016	December 2016	December 2016	January 2017	January 2017
B2	Planning	10	10	Q3	1 st August 2016	December 2016	January 2017	January 2017	March 2017
C1	Directorate governance: Borough Secretary	10	-	Q2	Removed from the Internal Audit Plan				
D1	Environmental Health and Licencing	10	10	Q3	1 st August 2016	December 2016	December 2016	December 2016	January 2017
D2	Environmental services	8.5	8.5**	Q3	1 st August 2016	September 2016	October 2016	October 2016	October 2016

D3	Customers and cultural services	10	1	Q3	1 st August 2016	TBC	TBC	TBC	TBC
E1	Housing options	10	9	Q2	28 th September 2016	January 2017	January 2017	January 2017	June 2017
E2	Private Sector Housing	10	1.5	Q2	28 th September 2016	March 2017	June 2017	June 2017	June 2017
E3	Partnerships and Communities	10	1	Q3	28 th September 2016	March 2017	June 2017	June 2017	June 2017
F1	Internal audit management	20	20	Q1-4	NA	NA	NA	NA	NA
F2	Contingency	20	23	Q1-4	NA	NA	NA	NA	NA
	Additional review: key financial controls	10	1	Q4	December 2016	March 2017	June 2017	June 2017	June 2017
	Total audit days	218.5	205						

* Where appropriate and in agreement with client management, we are able to flex our audit service to include more senior or specialist staff to respond to the risks generated by audit reviews. Where we do this we effectively agree a fixed fee for the audit work which is derived from the combined fees of the planned audit days allocated to this audit review during the annual planning process.

** Review delivered using specialist internal audit day rate. To be undertaken in addition to the agreed audit plan.

Appendix 2: Previous internal audit recommendations

The full reports are available to all senior officers using our online TrAction tool which includes details of the specific findings. We have worked with Officers to review the outstanding internal audit recommendations and ensuring that appropriate people within the Council take ownership for implementing internal audit recommendations, especially where the original audit sponsor is no longer in place. We are also working with officers to organise a training session for staff on the TrAction tool so it can be used more effectively going forward. Progress on this has been reported separately by officers.



In the event that, pursuant to a request which Northampton Borough Council has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. Northampton Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, Northampton Borough Council discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council as agreed in our engagement letter dated 19 May 2016. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else. If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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Making your internal audit work for you

*Northampton Borough
Council*

March 2017

pwc

Where are you?

- 2016-2020 Corporate Plan is strategically ambitious, focusing on some big projects including
 - Northampton Alive/Enterprise Zone development
 - Supporting the development of the University of Northampton and its purpose built city campus
 - Cultural redevelopment in the Borough including the Vulcan Works and Delapre Abbey
 - New housing developments, including the development of your own housing stock through Northampton Partnership Homes
 - Focusing on the health and wellbeing of the community including the Environmental Services waste contract
- You have a strong financial position - £0.8m forecast underspend in the year and usable reserves of £66.9m. 2017/18 - breakeven budget.
- You have a new leader and chair of audit committee. This provides an opportunity for a renewed focus on your governance
- The nature of the relationship with LGSS is changing - some services are back in house with an evaluation of the remaining services planned

However....

- There are future financial constraints with a requirement to make savings of £3.8m in 2018/19, rising to £5.4m in 2021/22
- The Council is under scrutiny, following recent transactions and this is likely to continue for a substantial period of time
- The introduction of the governance action plan will require substantial investment from officers to embed and implement over a period of time

Conclusion

- There is a lot of ongoing change across a wide range of areas, including governance, people and structures
- It will be important to stay on top of the basics as well as demonstrating improvements and implementation of the governance action plan
- Internal audit needs to rise to this challenge too.

Where are we?

- We have been working with you for over ten years
- Formation of the LGSS Partnership changed the nature of our relationship
- We currently have a contract until 31 March 2017, based on an extension of the April 2013 contract
- Our recent additional input has included:
 - Secondment support
 - Project assurance
 - NTFC review
 - Building a relationship with the politicians
- This kind of support is consistent with the relationship and services we provide as internal auditors elsewhere
- There has not been the opportunity to work with NBC in this way in the past

Plan development

To inform the development of our 2017/18 internal audit plan we have held a number of discussions with members and senior officers, including:



Plan development

Following our discussions with Members and Senior Officers we have developed a very different style of internal audit plan, focused on providing assurance aligned to the Governance Action Plan. Given the Council's focus on reviewing basic processes and ensuring the whole Council has in place a robust system of governance and controls we have increased the scope of our internal audit programme to incorporate supporting the Council with its project assurance and decision assurance. This will provide Officers and Members with additional assurance around the processes involved with key decisions and activities undertaken during this period of substantial change.

Following our discussions with Members and Senior Officers we have increased the scope of our internal audit programme and developed a very different style of internal audit plan. The audit plan is designed to:

- 123 focus on providing assurance aligned to the Governance Action Plan;
- incorporate supporting the Council with its project assurance and decision assurance given the Council's focus on reviewing basic processes and ensuring the whole Council has in place a robust system of governance and controls; and
- provide Officers and Members with additional assurance around the processes involved with key decisions and activities undertaken during this period of substantial change.

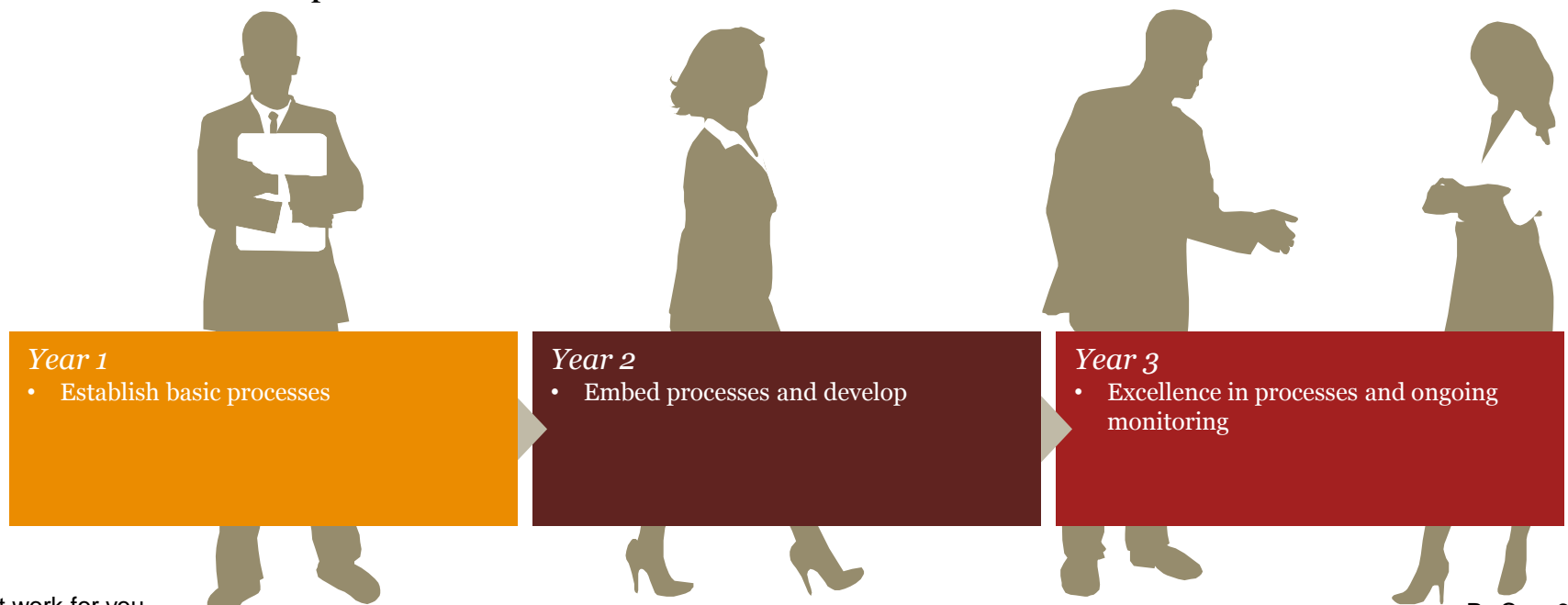
What do we think you need?

The following slides will take you through the specific areas of focus we consider to be important for the 2017/18 Internal Audit Plan, including:

1. Governance action plan assurance

- **Risk management** – ensuring this is fully implemented and joined up, supporting your new member of staff
- **Project assurance** – assurance on new arrangements and specific high profile projects
- **Decision assurance** – giving the Council assurance that its decision making is robust, from start to finish
- **Organisational change** – reintroduction of HR and legal services
- **Financial governance** – continuous assurance
- **Tracking recommendations and follow up**

2. Culture



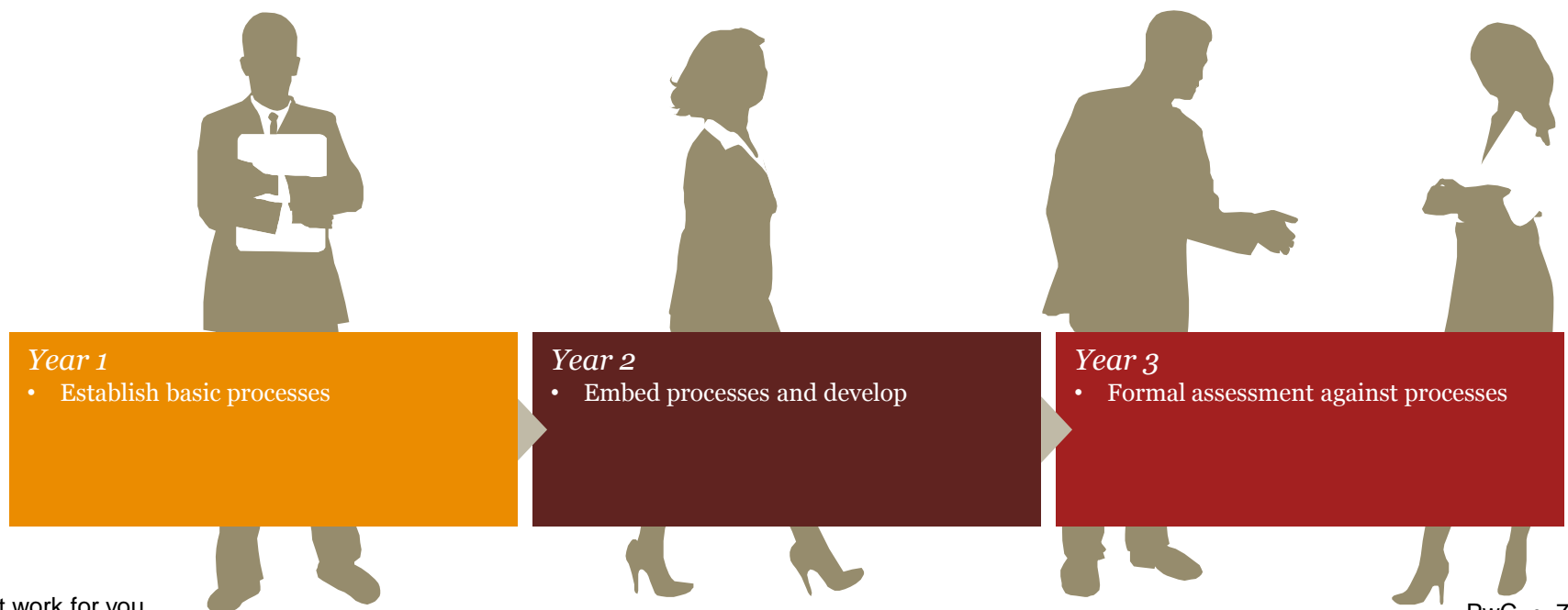
Governance action plan – risk management

It is still early days in terms of the risk management of strategic level risks

We suggest:

- We will fulfil a critical friend role in supporting you to establish arrangements
- We will support the Executive Board in aligning its strategy and risks
- Support your new member of staff – ensuring the top and bottom and appropriately aligned
- Once fully established, we will assure the arrangements and undertake a formal assessment

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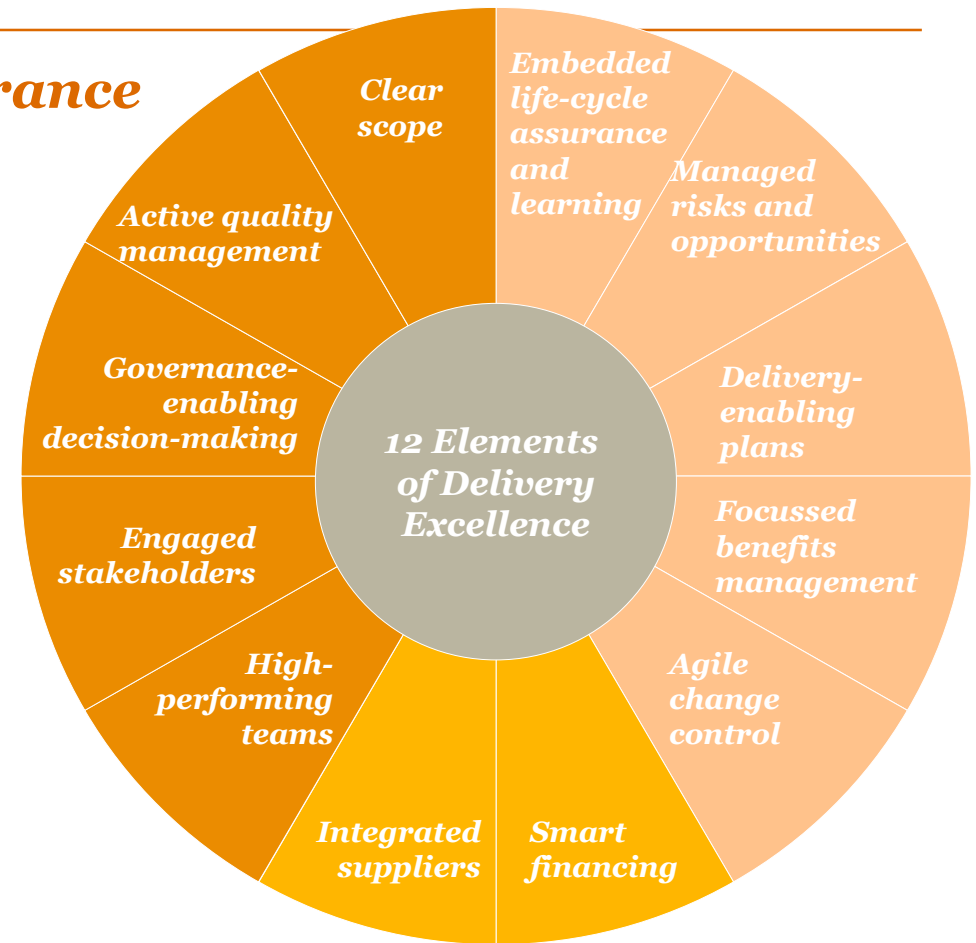


Governance action plan – project assurance

As the Council undertakes a number of new, unfamiliar, and large scale projects it will be essential to make sure the projects are effectively managed

126 We suggest

- Supporting you in establishing and implementing improved governance structures
- Providing you with assurance over the portfolio of projects and operations
- Providing specific targeted support and assurance on significant projects, including
 - Environmental services
 - Vulcan works
 - Museum redevelopment



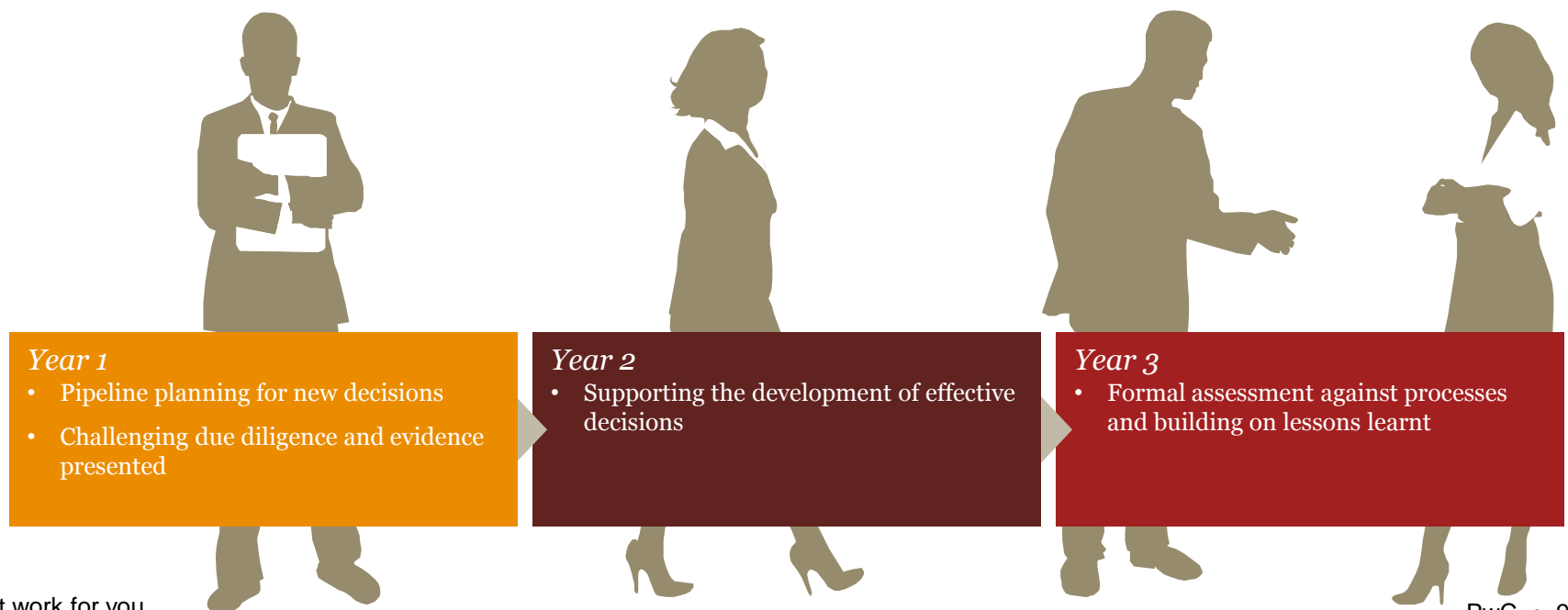
Governance action plan – decision assurance

As the Council undertakes a number of high profile, complex decisions it will be essential to make ensure that the decisions are adequately presented and all relevant information made available

We suggest

- Involvement in new arrangements and pipeline planning
- Evaluating the due diligence performed and evidence presented on key decisions - challenging on gaps in information
- Supporting the Council in making effective decisions
- Generating lessons learned for future decisions

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Governance action plan – organisational change

The Council is undergoing significant organisational change arising from the changing nature of the relationship with local partners, including LGSS and NPH

We suggest

- Understanding the current service provided and assessing whether this is appropriate
- Assess the re-integration of services, including HR and legal, and understand how these align with future plans and the Council's strategy
- Reviewing the Council's vision and strategy and ensuring this aligns with the current Council structure
- Acting as a critical friend in supporting the Council in developing plans for a new method of service delivery and identifying the required skills

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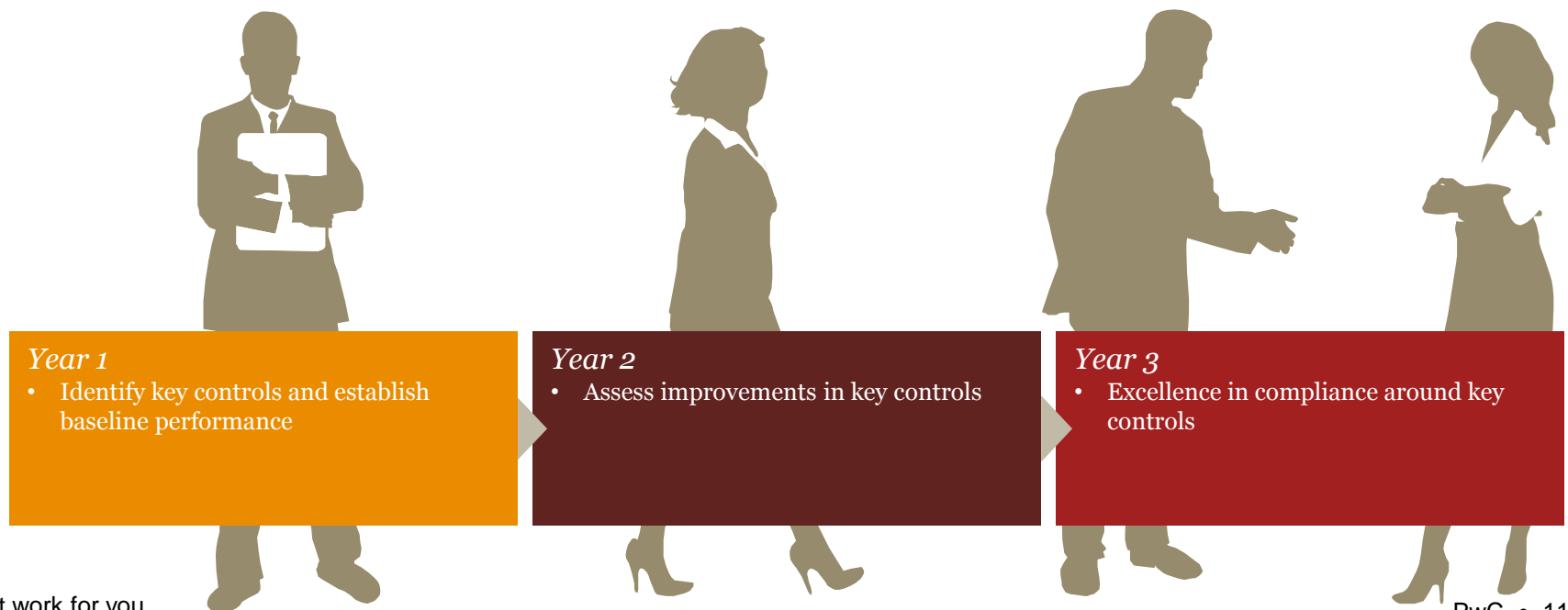
Governance action plan – financial governance

During this period of substantial change and focus on large scale, significant projects it is essential to make sure basic controls are in place and operating effectively as a solid foundation to the Council's development plans

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We suggest

- Continuous auditing
 - Workshop to agree key controls
 - Write up programme of regular testing
 - Execute
 - Report and refine
- Budgetary control, purchase to pay, procurement



Governance action plan – tracking recommendations and follow up

The Council has committed to addressing a number of identified issues in response to previous internal audit recommendations, governance action plan and the external audit ISA260. It is important to ensure these are addressed to improve the Council's performance going forward

We suggest

- Baseline recommendations and purging
- Establish a reporting routine
- Reporting on completion and exceptions
- Checking implementation and removing addressed actions



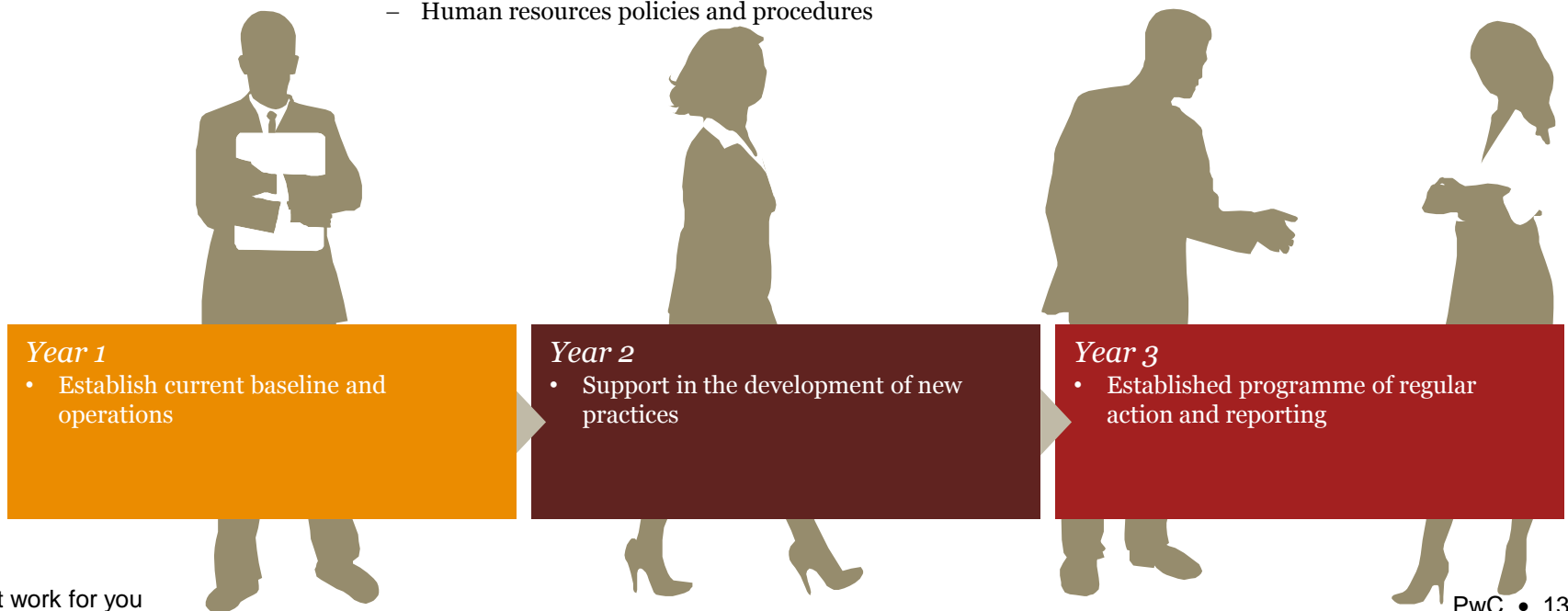
Culture

During this period of change, it is important for the Council officers and members to understand their role and support in the establishment of a changed Council

We suggest

Reviewing the current control environment, focusing on:

- Integrity and ethical values
- Commitment to competence
- Audit Committee
- Management's philosophy and operating style
- Organisational structure
- Assignment of authority and responsibility
- Human resources policies and procedures



Progress update

- After the Management Board meeting on 16 February 2017 Officers are determining the best way to contract these services and we are in the process of agreeing the cost to provide these internal audit services.
- We will prepare our detailed audit plan with officers following this, and we will bring it then in draft to the audit committee for discussion and comment.
- We would welcome members' questions and comments on the approach.

This is a proposal document and does not constitute a contract of engagement with PricewaterhouseCoopers LLP. The information set out in it is an indication of the terms on which we propose to carry out our internal audit service for you but the proposal is subject to the terms of any subsequent engagement contract that may be entered in to between us. In the event that our proposal to you is successful, our acceptance of the engagement will be contingent upon the completion of all our internal engagement acceptance procedures.

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Appendices

**1: KPMG External
Audit 2016/17 Plan**



AUDIT COMMITTEE REPORT

Report Title	External Audit (KPMG) 2016/17 Plan
---------------------	---

AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	6 th March 2017
Policy Document:	No
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr Brandon Eldred

1. Purpose

1.1 To inform the Audit Committee on the external audit plan for the audit of the 2016/17 accounts.

2. Recommendations

2.1 It is recommended that the Audit Committee note the external audit plan for the audit of the 2016/17 accounts.

3. Issues and Choices

3.1 Report Background

3.1.1 The external auditors KPMG provide an annual audit plan on their proposals and timeframes for auditing the council's accounts. This includes details of specific areas they intend to focus on, indications of when they intend to report back to the council, and their fee levels.

3.2 Choices (Options)

3.2.1 The report is just for noting, however Audit Committee have the opportunity to ask questions directly to the auditors on anything contained in their report, and issues around the external audit process. They also have the opportunity to question management on any of the issues raised.

4. Implications (including financial implications)

4.1 Policy

4.1.1 None to report.

4.2 Resources and Risk

4.2.1 None to report at present.

4.3 Legal

4.3.1 None to report at present.

4.4 Equality

4.4.1 Not applicable.

4.5 Consultees (Internal and External)

4.5.1 None.

4.6 Other Implications

4.6.1 None.

5. Background Papers

5.1 None to date.

Glenn Hammons
Chief Finance Officer, Telephone 01604 366521



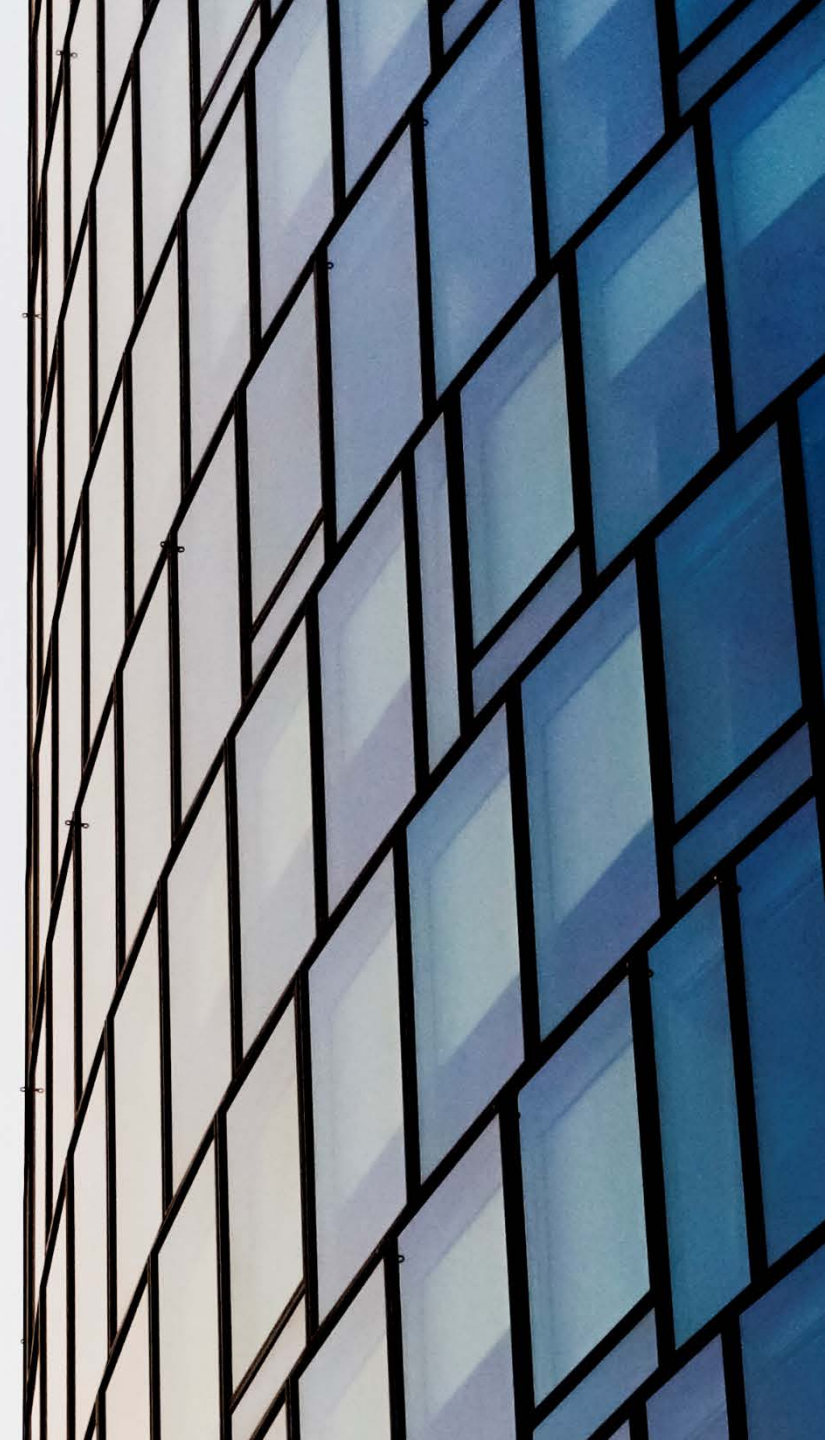
External Audit Plan 2016/17

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Northampton Borough Council

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March 2017



The Local Government Landscape





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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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

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

Headlines



Financial statements audit

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

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

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

Materiality

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

Significant audit risks

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

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

Other areas of audit focus

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

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

See pages 6 to 12 for more details.



Value for Money arrangements work

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

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

See pages 13 to 19 for more details.



Logistics

Your core audit team is:

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

More details are on **page 23**.

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

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

Introduction

Background and Statutory responsibilities

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

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

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

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

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

Acknowledgements

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

Financial Statements Audit

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



Value for Money Arrangements Work

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



Overview

Financial Statements Audit Planning

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

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

Risk assessment

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

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

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



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Significant audit risks

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

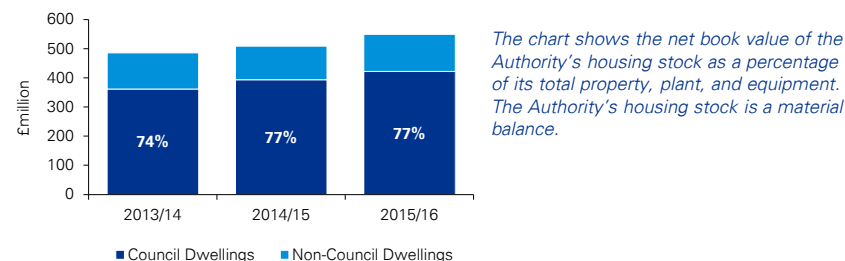
1. Valuation of Council Dwellings

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

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

Our approach

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



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

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

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

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

Our approach

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

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

Significant audit risks (cont.)

3. Management override of controls

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

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

Our approach

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

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

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

Other areas of audit focus

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

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

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

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

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

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

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

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

Our approach

As part of our audit:

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

Other areas of audit focus *(cont.)*

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

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

Our approach

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

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Materiality

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

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

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

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

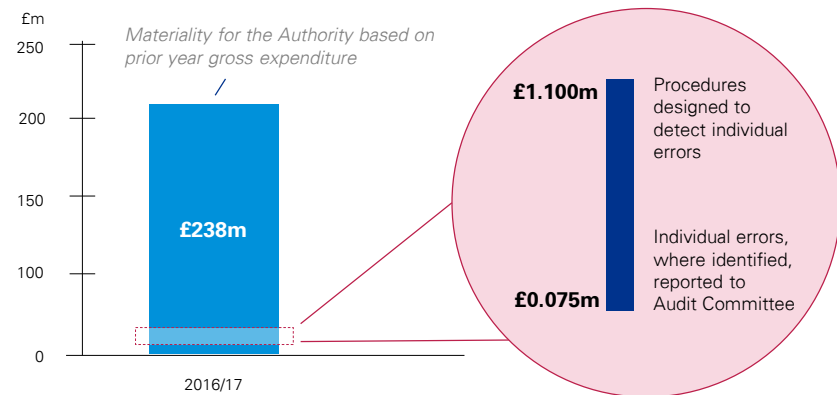
Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than **£75,000**.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



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

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

Materiality (cont.)

Group audit

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

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

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

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

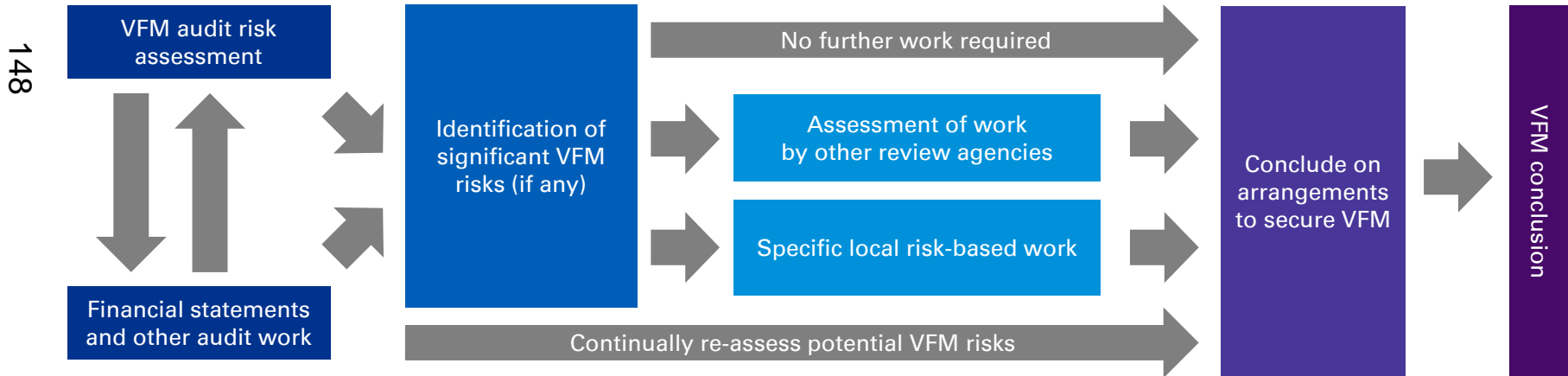
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Our approach

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

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

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



Our approach (cont.)

VFM audit risk assessment

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

In doing so we consider:

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

Linkages with financial statements and other audit work

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

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

Identification of significant risks

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

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

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

Our approach (cont.)

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Assessment of work by other review agencies

and

Delivery of local risk based work

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

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

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

Concluding on VFM arrangements

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

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

Reporting

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

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

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

Our approach (cont.)

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

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Proper arrangements:

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



Proper arrangements:

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

Proper arrangements:

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

Significant VFM risks

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

1. Governance Action Plan

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

Our approach

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

2. NTFC loan and the wider loans system

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

Our approach

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

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

Significant VFM risks (cont.)

3. Procurement

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

Our approach

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

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

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

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Significant VFM risks (cont.)

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4. Financial resilience in the local and national economy

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

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

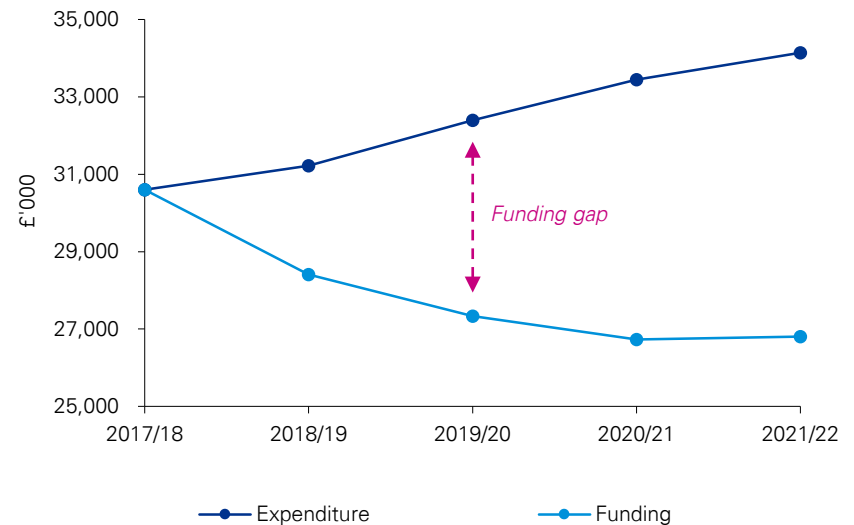
From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored by the management board. The Authority's proposed new governance arrangements include a specific officer board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

Our approach

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

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

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



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

Other matters

Whole of government accounts (WGA)

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

Elector challenge

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

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

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

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

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

Our audit team

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

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

Reporting and communication

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

Independence and Objectivity

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

Audit fee

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

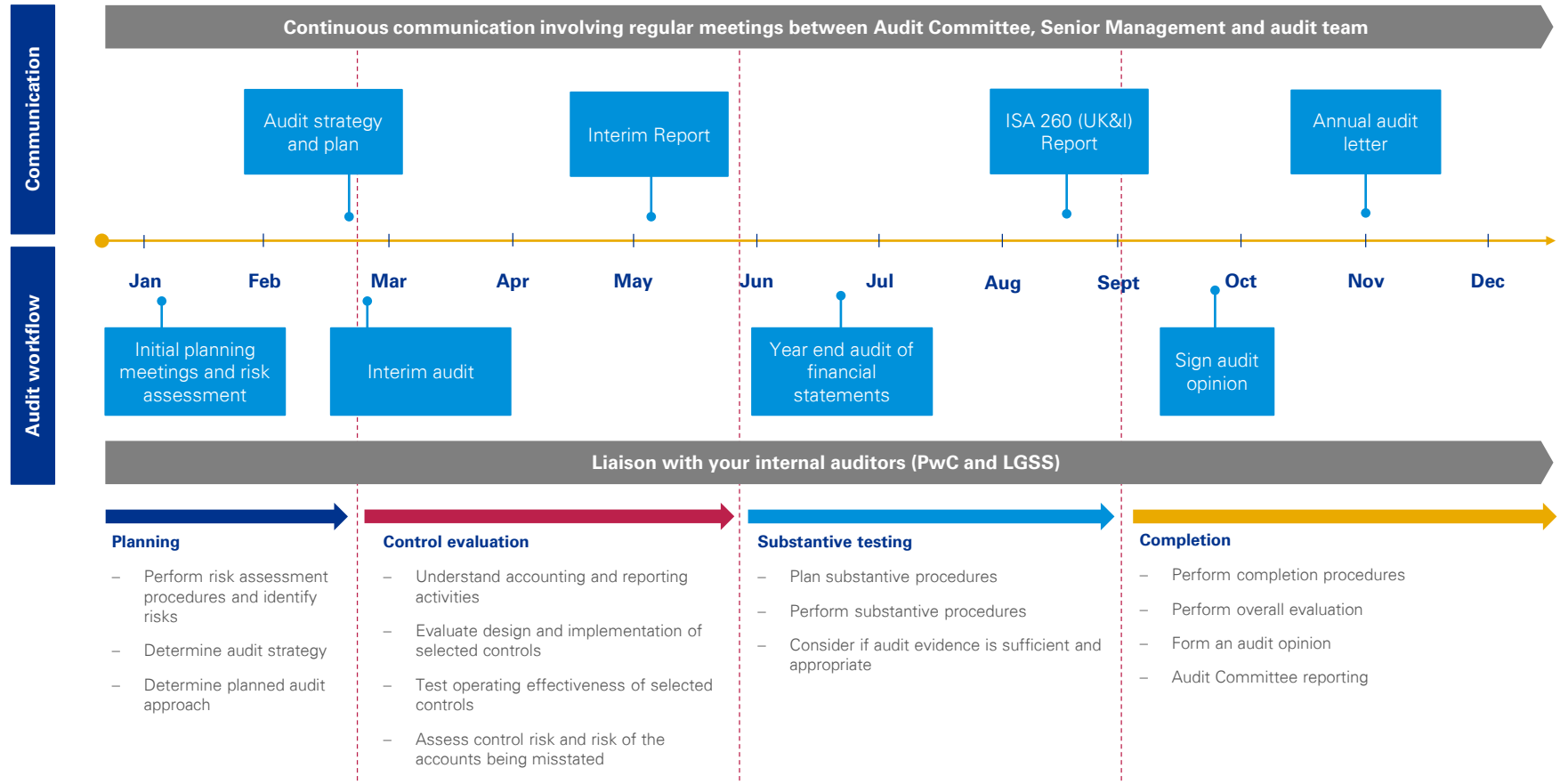
We have identified an increased risk of management override of control, the Authority's re-evaluation of Council Dwellings, and the impact of the triennial pension fund revaluation (see page 7) as significant risks to the audit. Other additional areas include significant Code disclosure changes relate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

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

1. Key elements of our approach

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

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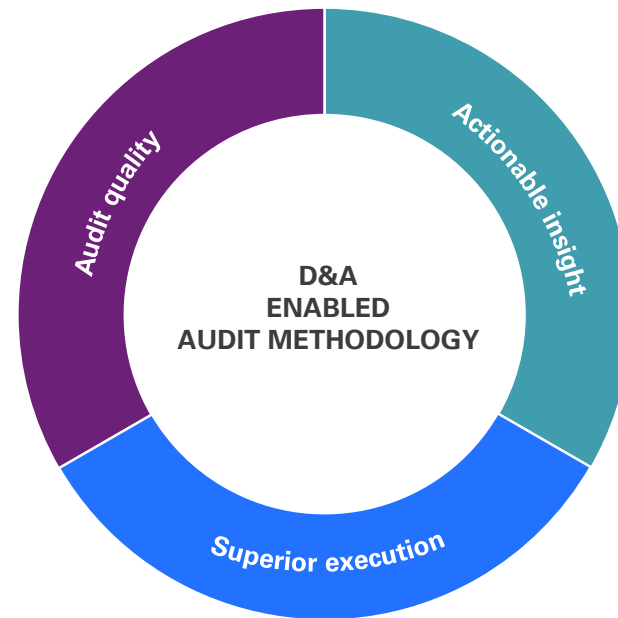
1. Key elements of our approach (cont.)

Driving more value from the audit through data and analytics

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

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

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



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2. Your audit team

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

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Andrew Cardoza
Director

+44 121 232 3869
andrew.cardoza@kpmg.co.uk

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



Daniel Hayward
Senior Manager

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

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

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



Joseph Seliong
Manager

+44 121 232 3920
joseph.seliong@kpmg.co.uk

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

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



Katie Scott
Assistant Manager

+44 121 232 3632
katie.scott@kpmg.co.uk

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

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

3. Audit fees

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

Audit fee

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

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

All fees are quoted exclusive of VAT.

*Subject to PSAA approval

Note 1: Accounts opinion and use of resources work

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

Note 2: Housing benefits (BEN01) certification work

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

Audit fee letter

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

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

Audit fee assumptions

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

4. Independence and objectivity requirements

Independence and objectivity

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

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

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

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

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

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

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

Confirmation statement

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

5. Responsibilities in relation to fraud

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

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

6. KPMG audit quality framework

We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. KPMG’s Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. The diagram summarises our approach and each level is expanded upon.

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

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

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

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

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

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

Clear standards and robust audit tools: We expect our audit professionals to



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority’s risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience. We have a well-developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



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17 February 2017

Dear Glenn

Northampton Borough Council - Certification of Claims and Returns - Annual Report 2015/16

Public Sector Audit Appointments Ltd requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2015/16.

In 2015/16 we carried out certification work on the Housing Benefit Subsidy claim and the Pooling of Housing Capital Receipts Return. The certified values of the claim/return were:

Description	Amount	Certification Date
Housing Benefit Subsidy Claim	£72,236,930.00	30 November 2016
Pooling of Housing Capital Receipts Return	£1,091,047.84	2 November 2016

Matters arising from Housing Benefit Subsidy claim

Our certification work on Housing Benefit Subsidy claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and

- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

In the 2015/16 claim, errors identified included the calculation of claimants' income, the application of savings credit, child care costs for private tenants, start dates for Job Seeker Allowance (JSA) passported claims, and the application of a rent increase. Extrapolated adjustments were reported to the Department for Work and Pensions on 30 November 2016 in line with the Department's requirements. However, no adjustments were made to the Council's claim.

Consequently we have made one recommendation to the Council to improve its claims completion process, see Appendix 1.

In our 2014/15 Certification Annual Report we raised two recommendations relating to the Housing Benefit Subsidy claim. Full details are included in Appendix 2.

Matters arising from Pooling of Housing Capital Receipts return

Our work on the Pooling of Housing Capital Receipts return identified minor adjustments issues and we certified the claim unqualified. The adjustments did not result in a change to the amounts paid into the pool.

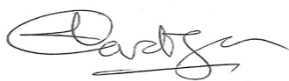
Consequently we have made no recommendations to the Council to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments Ltd ('PSAA') set an indicative fee for our certification work for Housing Benefits Subsidy Claim in 2015/16 of £10,579. Our actual fee was the same as the indicative fee, and this compares to the actual 2014/15 fee for this claim of £25,296. The prior year's fee included £10,646 of additional costs incurred in relation to further work and training being undertaken by the audit team. This was in response to an unexpected and long-term sickness absence of the key member of staff responsible for assisting with this work. Additional testing was also required in 2014/15 in respect of the assessment of end dates for non-housing revenue claimants and the calculation of child care costs for private tenant claimants. We are pleased to report that no additional fees were incurred for this year's audit.

The fee for our certification work for Pooling of Housing Capital Receipts return in 2015/16 was £4,118. This is in line with our contract dated 21 September 2015.

Yours sincerely



Andrew Cardoza
Director, KPMG LLP

Appendix 1: 2015/16 Certification of Claims and Returns Action Plan

Priority rating for recommendations		
<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements 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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Number	Issue	Recommendation	Priority	Comment/Responsible officer/Due date
1	<p>Housing Benefit Subsidy –Quality and Assurance</p> <p>The Council continues to perform quality and assurance checks on the risk areas identified in the previous year. In the 2014/15 return these included application of start and end dates for payments received by claimants from the DWP, calculation of claimants income, and the assessment of the impact of dependants and non-dependants.</p> <p>In the 2015/16 return errors identified included the calculation of claimants’ income, the application of savings credit, child care costs for private tenants, start dates for JSA passported claims, and the application of a rent increase.</p>	<p>We recommend that the benefits team consider errors identified when considering the risk areas on which to focus their quality and assurance checks.</p> <p>We also recommended that the underlying cause of the errors is considered, and any training needs are identified with an appropriate plan produced and followed to address these areas.</p>	2	<p>Agreed.</p> <p>Responsible officer: Marc Brown (Subsidy Officer) Target date: Ongoing</p>

Appendix 2: Follow-up of 2014/15 Certification of Claims and Returns Recommendations

Priority rating for recommendations		
<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements 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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Number	Prior year recommendation	Priority	Status as at February 2017	Management comments
1	<p>Housing Benefit Subsidy –Quality and Assurance</p> <p>The Council continues to perform quality and assurance checks on the risk areas identified in the previous year. In the 2014/15 return these included application of start and end dates for payments received by claimants from the DWP, calculation of claimants income, and the assessment of the impact of dependants and non-dependants.</p> <p>We recommend that the benefits team consider errors identified as a factor when considering the risk areas on which to focus their quality and assurance checks. We also recommended that the underlying cause of errors is considered, and any training needs are identified with an appropriate plan produced and followed to address these areas.</p>	2	<p>In the 2015/16 return errors identified included the calculation of claimants’ income, the application of savings credit, child care costs for private tenants, start dates for JSA passported claims, and the application of a rent increase.</p> <p>Due to the errors found during this year’s audit, we re-iterate this recommendation for 2015/16.</p>	<ul style="list-style-type: none"> – We have targeted those areas with the highest number of errors identified in 2014-15 (& again in 2015-16) with specific quality checks. Errors in earned income, start dates were the main errors in 2014-15 and in 2015-16 errors in these areas were identified again along with errors in childcare cost calculation. We have focused on checking one error type in one month each quarter and have checked as many claims as we can during this time. – In Q1 (Apr) we quality checked earned income cases. Accuracy was 95% with 9 errors from 166 claims checked. All errors were referred back to assessor for correction, along with offers of guidance, training & support – On the back of the earned income testing we reviewed and revised the EI procedures to ensure they were fully up to date and gave guidance on the issues coming up from the audits & checking. These procedures are available to all staff on the learning pool.

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Number	Prior year recommendation	Priority	Status as at February 2017	Management comments
	<p>Responsible officer: Marc Brown (Subsidy Officer)</p> <p>Target date: Ongoing – update on progress to be provided to Audit Committee after 1st April 2016</p>			<ul style="list-style-type: none"> – In Q2 (Aug) we checked start dates. Accuracy was 98% with just 3 errors identified from 165 claims checked. Again, errors were fed back & corrected. – In Q3 (Dec) we quality checked childcare costs. Accuracy was 96% with 3 errors from 83 claims. Errors were fed back & corrected. – It was found that there were similar errors in terms of child care costs i.e. over how many weeks to calculate CCC. We therefore reviewed and amended the current procedures to ensure clear guidance was given on how to calculate CCC – A new training officer started in early 2016 and is in the processes of reviewing and updating all procedures, processes and guidance on the learning pool. Procedures for earned income, self-employed claims, childcare costs, temporary absence, DHPs, Overpayments have all been updated – Various training sessions and workshops are now being offered to improve learning & development & staff receive monthly reports on their performance including recommendations following identification of any errors – We will continue to record all errors and are able to easily identify any error trends not identified during the audit process. This will allow us to target specific errors trends in future monthly checking and to provide the necessary training & support to those requiring it in order to eradicate the errors going forward
2	<p>Housing Benefit Subsidy – Knowledge sharing and contingency plans</p> <p>A high level of knowledge and understanding of the housing benefit subsidy claim is retained by only one member of staff (Subsidy Officer).</p>	2	Officers were present during our audit, thus we will not be re-iterating this recommendation.	<ul style="list-style-type: none"> – We are now widening the subsidy support across the section rather than limiting it to just one additional officer. This will be an ongoing process. – 2 officers attended a subsidy workshop in January 2016 which has provided the Authority with more general subsidy knowledge – Full Training has been given to 3 members of staff on the audit process, checking process and the completion

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Number	Prior year recommendation	Priority	Status as at February 2017	Management comments
	<p>Due to an unexpected, long term sickness absence of this individual in 2014/15 additional audit time was spent on the housing benefit subsidy testing. This included training of other members of the revenues team and time spent dealing with queries.</p> <p>The Council should ensure that sufficient knowledge of the housing benefit subsidy claim is shared across other key members of the revenues team.</p> <p>The Council should put in place a training programme which builds upon the knowledge shared as part of the 2014/15 audit process and ensure that sufficient support is given to the Subsidy Officer to complete this requirements of this audit testing going forward.</p> <p>Responsible officer: Marc Brown (Subsidy Officer)</p> <p>Target date: Ongoing – training and mentoring to be provided on an on-going basis, but main training to be completed by October 2016 before the 16/17 grant audit.</p>			<p>of subsidy workbooks proving them with the understanding and knowledge to complete the audit process in the absence of the subsidy officer.</p> <ul style="list-style-type: none"> – 2 people are due to attend a subsidy workshop in March 2017 for those 'new to subsidy'. This focuses specifically on claiming and payments of subsidy, applicable deadlines, the mechanics of the subsidy claim, the responsibility of the LA, DWP & auditors & an overview of certification arrangements. This will give the Authority a wider resource and knowledge base of the subsidy process and provide potential cover and assistance to the subsidy officer. – We are also in the process of recruiting an additional resource to the subsidy, training & quality team who will provide further support to the subsidy officer in the completion of the subsidy claim & audit

This report is addressed to the Council and has been prepared for the sole use of the Council. 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 Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.