



**Northamptonshire  
County Council  
Final Audit results  
report**

Year ended 31 March 2021

November 2023



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10 November 2023

Audit and Governance Committee  
West Northamptonshire Council  
C/o One Angel Square  
Angel Street  
Northampton, NN1 1ED

Dear Audit and Governance Committee Members

**Northamptonshire County Council 2020/21 Audit results report**

We are pleased to attach our final Audit Results Report. The report updates the status of our audit as presented to the Audit and Governance Committee in April 2022.

Subject to concluding the outstanding matters listed in our report, we expect to include an Emphasis of Matter paragraph in our audit opinion to draw the readers attention to disclosure in the financial statements on the local government reorganisation in Northamptonshire. In addition, we are reporting matters about the arrangements that were in place at Northampton Borough Council during 2020/21 to secure economy, efficiency and effectiveness in the use of resources.

We thank the management team of West Northamptonshire Council for supporting this process.

This report is intended solely for the information and use of the Audit and Governance Committee, other members of the Council and senior management of West Northamptonshire Council. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 21 November 2023.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Encl

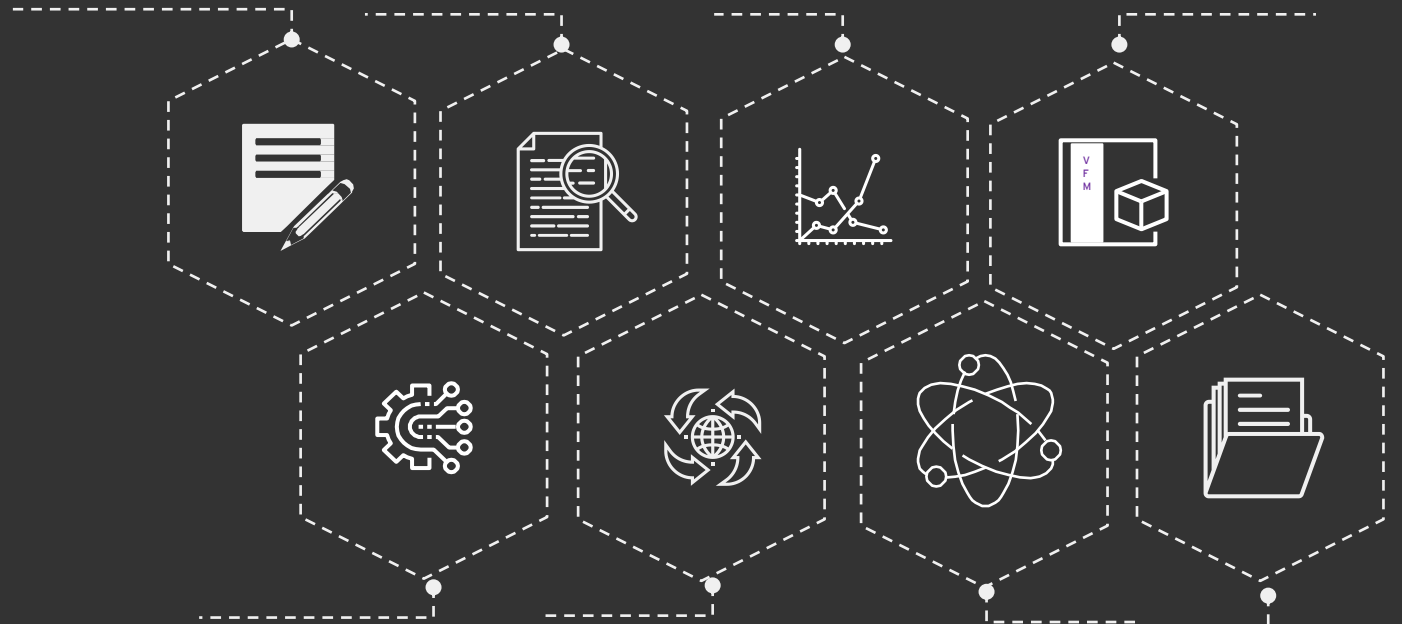
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Public Sector Audit Appointments Ltd. (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of West Northamptonshire Council in accordance with the Statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of West Northamptonshire Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of West Northamptonshire Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Changes since our provisional audit results report

We provided a provisional audit results report to the 28 April 2022 meeting of the Audit and Governance Committee. Since then, we have encountered significant challenges in completing the audit and identified a large number of further findings and observations. For this reason, we do not consider it practical to highlight where this report has changed from our provisional report and encourage that this report is considered in full.

## Scope Update

In our audit planning report presented at the 26th January 2022 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

### New area of focus

A sector wide issue concerning the value of infrastructure assets was considered by CIPFA and technical teams from public sector audit firms. The issue concerned the writing out of the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned. Full details of the risk are set out in section 02.

### Additional audit procedures as a result of Covid-19

As a result of Covid-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, were published and came into force on 31 March 2021. This announced a change to the publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities. Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

There was no change to our planning materiality assessment as reported in our audit planning report. Based on our materiality measure of gross expenditure our overall materiality assessment remained at £11m. The performance materiality, at 50% of overall materiality, was £5.5m, and the threshold for reporting misstatements was £0.55m.

# Executive Summary

## Status of the audit

Our audit work in respect of the Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report. Details of each outstanding item, actions required to resolve those items and responsibility to do so is included in Appendix D.

### Closing Procedures:

- ▶ Subsequent events review;
- ▶ Agreement of the final set of financial statements;
- ▶ Receipt of signed management representation letter; and
- ▶ Final Manager and Engagement Partner reviews.

## Audit differences

At the date of this report we have identified:

### Adjusted differences above our audit differences threshold of £0.55m

- A mis-coding error of grants and contributions, resulting in a £6m overstatement of creditors and £5.7m overstatement of debtors.
- A mis-coding error of £2.1m between income and expenditure (increasing both income and expenditure).
- A mis-coding error of a 2019/20 provision reversal, between income and expenditure (reducing both income and expenditure).
- A mis-classification error of £3.8m between creditors and receipts in advance.
- A creditor overstatement of £2m impacting expenditure reserves balances.
- A mis-classification error of £7.4m between debtors and creditors.
- A calculation error of £31.4m concerning the re-negotiated PFI scheme. This is a disclosure error concerning Note 41 Service Concession Arrangements (former PFI arrangements). The amendment changes amounts payable in future years.
- An increase in value of One Angel Square of £4.3m, increasing the upwards revaluation reserve (£11m) and decreasing Capital adjustment account (£6.7m).
- An omission of £5.7m debtor and creditor amounts for Covid grants with a corresponding increase to income and expenditure
- An adjustment for Local Government Reorganisation reduction of debtors of £6.2m and corresponding increase to creditors.
- Removal of credit balances within the AR control account of £1.2m, increasing both debtors and creditors

There are 4 unadjusted differences. Full details are included in Section 03 of this report.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no other matters to report as a result of this work.

The Council did not complete a Whole of Government Accounts (WGA) return, We were therefore unable to complete the WGA audit procedures as instructed by the National Audit Office (NAO). The Comptroller and Auditor General of the NAO has now issued his Certificate and Report on Whole of Government Accounts for 2020/21. There are therefore no further WGA audit requirements.



# Executive Summary

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the 2020/21 financial statements of Northamptonshire County Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee or Management.

## Control observations

Given that the Authority ceased to exist on 1 April 2021, we have not made recommendations as to how management should seek to address control observations noted during the course of our audit. We do, however, have several specific observations which we wish to bring to your attention for information as the successor organisation for action where appropriate. Further details of our observations are set out in Section 6.

## Independence

Please refer to Section 07 for our update on Independence.

# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Auditors' commentaries on arrangements for demising bodies are not required to provide a full commentary against the above criteria, however they should focus on whether or not any significant weaknesses were identified at the demised body and may also highlight any other findings that the auditor considers appropriate.

The matters described within section 4 of our report are those we consider to be significant weaknesses in the Council's arrangements. Our final commentary will be included in our Auditor's Annual Report.

## Status of the audit - Value for Money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan, we identified significant risks concerning Ofsted findings relating to the areas for improvement identified in Children's Services, and risk management. We have included in Section 04 the detailed work we carried out in response to these risks.

The Council was proactive throughout the 2020/21 financial year in addressing several issues that were identified in the prior year. However, during the year to 31 March 2021, weaknesses in arrangements were still in evidence, as reflected in the Ofsted reviewed of Children's Services during 2020/21. In addition, weaknesses in risk management arrangements remained, with the Corporate Risk Register not being sufficiently comprehensive and not providing sufficient detail of the risks and the related controls in order to be effective in mitigating risks for the Council.

Based on the work we have completed to date, we expect to report by exception, in the form set out in Appendix F, on value for money arrangements, reflecting weaknesses present in the Council's arrangements to fully implement Ofsted inspection findings and risk management during 2020/21.

The findings reflect our assessment of arrangements in place during 2020/21.





02

## Areas of Audit Focus



## Areas of Audit Focus

# Significant risk

**Risk of fraud in revenue and expenditure recognition - incorrect capitalisation of revenue expenditure\***

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

A key way to improve the revenue position is through the inappropriate capitalisation of revenue expenditure.

The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

### What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately classify expenditure as capital in order to reduce their expenditure:

- Accruals near year end.
- Journal entries intended to re-classify expenditure from revenue to capital.
- The routine classification of expenditure posted during the year as capital.

### What did we do?

- For significant additions, we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- We extended our testing of items capitalised in the year by lowering our testing threshold. We also reviewed a larger random sample of capital additions below our testing threshold.
- We used our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

### What are our conclusions?

Our testing has not identified any material misstatements with respect to incorrect capitalisation of revenue expenditure.



## Areas of Audit Focus

# Significant risk

**Risk of fraud in revenue and expenditure recognition - Incorrect classification of revenue expenditure funded by capital under statute (REFCUS)\***

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

By incorrectly classifying expenditure as REFCUS, the Council could improve the reported revenue position.

### What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately classify expenditure as REFCUS in order to reduce their expenditure:

- Accruals near year end;
- Journal entries intended to re-classify expenditure from revenue to capital.
- The routine classification of expenditure posted during the year as capital.

### What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect classification of expenditure as REFCUS:

- Test a sample of REFCUS items at a lower testing threshold to verify that they have been appropriately classified.

### What are our conclusions?

Our testing has not identified any material misstatements with respect to expenditure classified as REFCUS.



## Areas of Audit Focus

# Significant risk

### Risk of fraud in revenue and expenditure recognition - incorrect application of cut-off

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed that an area open to a greater risk of manipulation is in the inappropriate application of cut-off such that expenditure related to the 2020/21 financial year is borne by the successor bodies.

We have also identified a risk relating to the omission of expenditure accruals and overstatement of year end debtor balances again to improve the reported outturn. We have identified the manipulation of year end debtor and creditor balances as the most likely means to impact the reported income and expenditure positions, rather than in year income and expenditure postings.

#### What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately omitted accruals or post overstatements:

- Postings either side of the year end.

#### What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect application of cut-off:

- Extended our cut-off procedures to ensure items of expenditure is recorded in the correct year;
- Tested year-end debtors and creditors at a lower testing threshold to verify they have been recorded at the appropriate amount and in the correct year;
- Extended our testing of unrecorded liabilities.

#### What are our conclusions?

Our work on the cut-off of creditors (which also addresses our risk of expenditure cut off) has comprised reviewing all items, one month either side of the year-end in excess of our testing threshold. Our testing has not identified any exceptions.

Our testing of unrecorded liabilities has not identified any liabilities which have been omitted from the 2020/21 financial statements. These procedures were extended to five months after the year end and included reviewing transactions in the successor Councils.

Our work on testing debtors for one month either side of the year end has not identified any significant issues.

Our work has been completed with no material exceptions identified.



## Areas of Audit Focus

# Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

#### What did we do?

We perform mandatory procedures to address the general risk of fraud, regardless of specifically identified fraud risks. These include:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for any significant unusual transactions.

#### What are our conclusions?

Our testing of journals has identified weaknesses in the control environment which have been outlined in Section 06. These generally relate to difficulties in obtaining information to support journals. We have not however identified any inappropriate journals within our testing that indicate management override of controls.

Our testing of other material estimates such as the pensions liability and land and building and investment property valuations has not identified any significant issues.

Overall, our work has not identified any instances where the controls in place have been circumvented or otherwise overridden by management.



## Areas of Audit Focus

### Significant risk

#### Valuation and accounting treatment of One Angel Square (OAS)

#### What is the risk?

The Council completed the construction of a new purpose built headquarters building in the centre of Northampton in 2017. It subsequently completed a sale and leaseback of this asset on 18 April 2018, with the asset valued at fair value at 31 March 2019.

The Council have revalued One Angel Square during 2020/21. The valuation approach has been changed to Depreciated Replacement Cost, which is typically applied for specialised operational assets for which an active market does not exist.

We have identified a risk concerning the valuation of One Angel Square as this is a significant asset for the Council with a material value and the valuation approach has changed.

#### What judgements are we focused on?

We focused on the change in valuation methodology between years.

#### What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of One Angel Square:

- Work with our internal valuation specialists to assess the reasonableness of the valuation, including:
  - Understanding the scope of the work performed by management's specialist;
  - Evaluating the qualifications, experience and independence of the specialist;
  - Evaluating the reasonableness of the methodology applied in the valuation;
  - Testing significant assumptions and inputs;
  - Evaluating the overall reasonableness of the valuation; and
  - Test accounting entries have been correctly processed in the financial statements.

#### What are our conclusions?

We challenged the Council's application of the depreciated replacement cost (DRC) revaluation methodology as the asset is recognised on the balance sheet as a finance lease asset. The Cipfa code requires non current assets recognised through a finance lease to be valued as the lower of fair value or net present value of lease payments. The Council agreed the DRC methodology was not correct and engaged their valuation specialist to prepare a new valuation report.

Our internal valuation specialists reviewed the revised valuation report. Our specialists concluded that the revised valuation was consistent with valuation practice.

The financial statements were amended to reflect the revised valuation report. This increased the value of OAS by £4.3m.



## Audit risks

### Other areas of audit focus

#### What is the area of focus?

##### Valuation of property, plant and equipment, including investment property

The fair value of land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We will specifically focus on assets where a higher degree of estimation uncertainty exists; which for Northamptonshire County Council is those assets valued in year under one of the following valuation methods:

- Fair Value (such as investment properties);
- Depreciated Replacement Cost (specialised operational assets for which an active market does not exist); and
- Existing Use Value (operational assets for which there is an active market to provide comparable evidence)

Our assessment is that this risk is linked to other land and buildings due to the range of valuation bases and assumptions included within that balance, and to investment properties.

#### What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation;
- Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Considered any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Tested valuation assumptions used by the valuer for a sample of assets;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the asset base not subject to in year valuation is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

#### What are our conclusion?

We have not identified any issues in our work on the valuation of land and buildings including investment property.



## Audit risks

### Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusion?
<p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p> <p>ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<ul style="list-style-type: none"> <li>➤ Liaised with the audit team of the Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Northamptonshire County Council. Note that the audit of the Pension Fund is also performed by EY;</li> <li>➤ Assessed the work of the Pension Fund actuary (Hymans Robertson), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;</li> <li>➤ Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and</li> <li>➤ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.</li> </ul>	<p>We have completed our review of the actuary, accounting entries and disclosures and have not identified any issues.</p> <p>Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.</p> <p>We note that the asset information originally provided by the Pension Fund to the actuary was based on expected returns for the final quarter which subsequently differed from the actual returns over this period. This fact was identified by management and a second report obtained from the actuary which reflected the actual return on the Pension Fund's assets up to 31 March 2021. This updated valuation was used to update the draft financial statements.</p> <p>We have no other matters to report in respect of this risk.</p>





# Audit risks

## Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusion?
<p><b>Going Concern</b></p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.</p>	<p>In undertaking this work, as the Council ceased to exist on 31 March 2021, the going concern assessment focussed on the service continuity provided by the two new Unitary Councils. We reviewed the Council's going concern assessment and disclosure for 2019/20 in line with auditing requirements and considered in particular the Council's consideration and disclosure of the impact on the future financial position as a result of Covid-19 and the local government reorganisation.</p> <p>We also considered whether these disclosures included details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).</p> <p>Our audit procedures to review these included considerations of:</p> <ul style="list-style-type: none"> <li>• Current and developing environment;</li> <li>• Liquidity (operational and funding);</li> <li>• Mitigating factors;</li> <li>• Management information and forecasting;</li> <li>• Sensitivities and stress testing;</li> <li>• Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.; and</li> <li>• Continuation of services post local government reorganisation.</li> </ul>	<p>We conclude that the UK Parliament enacted plans that do impact on the continued operational existence of the sovereign Northamptonshire Councils beyond 31 March 2021, but that the Council's activities transferred to the two Unitary Councils. Therefore, the going concern basis of preparation of financial statements for each sovereign Council for the period up to 31 March 2021 remains appropriate.</p> <p>We have reviewed management's assessment for both North Northamptonshire Council and West Northamptonshire Council, and concluded that there is no material uncertainty in the Councils being able to continue with the provision of service. Our conclusion is based on the following key factors:</p> <ul style="list-style-type: none"> <li>• Starting budget - We have agreed the starting position to the combined 2020/21 budgets of the Councils being replaced.</li> <li>• Review of key fundings and savings assumptions built into budgets through to 31 March 2025.</li> <li>• Review of cash flow forecasting.</li> <li>• Applying audit modelling and stress testing to Council reserve balances and cash balances.</li> </ul>



# Audit risks

## Other areas of audit focus

### What is the area of focus?

#### Private Finance Initiative

The Local Authority Accounting Code of Practice requires that PFI (Private Finance Initiative) schemes should be accounted for on the basis of IFRIC 12 "Service Concessions".

The Council's total future obligation in relation to its PFI schemes as at 31 March 2021 is £992 million. These values are derived from complex models which reflects a number of assumptions which may change over the life of the contract. Any errors in the model could impact on liabilities and any charges to revenue in year.

The Council renegotiated the Shaw PFI contract during 2020/21. We understand the initial contract included provision of social care services; this element has been removed on renegotiation.

#### Transfer to Northamptonshire Children's Trust

In 2019, Northamptonshire County Council Children's Social Care services were placed under a "Direction" by the Department for Education for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a council wholly-owned Children's Trust.

Northamptonshire Children's Trust was established on the 1st November 2020 to deliver Children's Social Care services on behalf of the Council.

For 2020/21, the ownership of the Children's Trust is retained by the County Council.

There is a risk that the accounting for the transfer of services from the standalone County Council financial statements and the subsequent consolidation of the Children's Trust into County Council Group Financial Statements, could be misstated.

### What did we do?

- Confirmed our understanding of the process of how the PFI models are maintained and updated, including how the output of the models are included within the Council's financial statement closing processes;
- Identified those inputs to the model which are estimates and undertook audit procedures to gain assurance over the reasonableness of these estimates;
- Engaged EY's internal specialists to review the change to the Shaw PFI model to ensure the inputs and accounting are in line with our expectations; and
- Confirmed that year end journal entries in relation to the PFI schemes have been processed accurately.

- Reviewed the accounting for the transfer of the Trust and any associated assets and liabilities;
- Assessed and reviewed the procedures in place to prepare consolidated group financial statements; and
- Tested the transactions performed as part of the consolidation and review the presentation of required disclosures.

At the time of writing our provisional audit plan, the Children's Trust had not appointed an external auditor. An external auditor has now been appointed. We have been liaising with the external auditors of NCT, and have issued them with instructions that detail the required audit procedures they are to undertake on the consolidation schedules prepared by NCT.

### What are our conclusion?

We have completed audit procedures on the PFI contracts that have not changed in 2020/21 and have not identified any issues.

Our review of the Deeds of Variation, and calculations in the revised financial model for the Shaw PFI project concluded the Accounting Model is materially consistent with the Cipfa Code requirements.

Audit procedures did identify a disclosure error of £31.4 million in the financial statements. The Council have amended this.

The delay in appointing an external auditor to the Children's Trust resulted in a significant delay in completing our group audit procedures.

The Trust's external auditor have now completed and reported on the procedures set out in our group instructions. We have reviewed the reporting provided and completed a review of the Trust's audit file.

We have also completed testing of transactions performed as part of the consolidation and reviewed the presentation of required disclosures.

Audit work identified a £3.4 million overstatement of both income and expenditure due to an error in accounting for recharges in the Northamptonshire Children's Trust consolidated entries. Management have not amended for this error.

We have not identified any further issues to report.



# Audit risks

## Other areas of audit focus

### What is the area of focus?

#### Accounting for covid related Government grants

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

#### Accounting for infrastructure assets (new risk)

Infrastructure non-current assets are carried in the Balance Sheet at depreciated historic cost.

Where the subsequent expenditure represents the replacement of a component, the old component must be written out of the Balance Sheet.

A sector wide issue has been identified that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned.

### What did we do?

Our approach focussed on:

- ▶ Reviewing the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;
- ▶ Reviewing whether any initial conditions are attached to grants impacting their recognition;
- ▶ Assessing whether the accounting appropriately follows those judgements; and
- ▶ Checking the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Our approach focussed on:

- ▶ Discussing the procedures applied by the authority to ensure the subsequent capital spend is recognised in accordance with the Code;
- ▶ Obtaining evidence to match the subsequent expenditure to the carrying amount of the replaced part or component that is being derecognized;
- ▶ Where the carrying amount of the replaced part or component cannot be identified, testing the authority's use of the cost of the replacement as a proxy for the deemed carrying amount of the replaced part, ensuring the calculation appropriately adjusts the cost for depreciation and impairment; and
- ▶ Considering whether any additional disclosure of material estimation uncertainty is required.

### What are our conclusion?

Testing of covid related grants totalling £18 million identified a significant control weakness. The Council had not obtained confirmation from grant recipients that funding had been correctly used. This is a condition attached to the grant. The Council carried out further work to demonstrate that the 3 affected grants (Infection Control, Rapid Testing, and Workforce capacity). were used for the purposes intended and are not therefore owed back to the Government Department.

As a result of this exercise the Council identified £5.7 million where the grant recipient could not support that the funds had been spent in accordance with the conditions. The Council have therefore raised a debtor to the grant recipients to return the funds paid. The Council have also raised a corresponding creditor to pay back the department which issued them.

The Council have taken the statutory override and amended the financial statements in accordance with the Cipfa Code adaptation.

The Council's historic information of the infrastructure assets is not sufficiently detailed to prove the judgement that the components being replaced are fully depreciated or that the remaining balance would not be material.

We have checked the disclosure of infrastructure assets is in accordance with the Cipfa Code adaptation.



# 03 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements greater than £0.55 million which have been corrected by management that were identified during the course of our audit:

- A coding error of £2.1 million between income and expenditure (increasing both income and expenditure)
- A coding error of £2 million concerning a 2019/20 provision reversal, between income and expenditure (reducing both income and expenditure).
- A coding error of grants and contributions, resulting in a £6 million overstatement of creditors and £5.7 million overstatement of debtors .
- A classification error of £3.8 million between creditors and receipts in advance.
- A creditor overstatement of £2 million impacting expenditure and reserves balances.
- Incorrect accounting of credit balances within the Accounts Receivable control account of £1.2 million. The adjustment increased both debtors and creditors.
- A calculation error of £31.4 million concerning the re-negotiated PFI scheme. This is a disclosure error concerning Note 41 Service Concession Arrangements (former PFI arrangements). The amendment changes amounts payable in future years.
- Correcting the valuation methodology for One Angel Square increased the value by £4.3 million. There was a corresponding increase to the revaluation reserve of £11 million, and decrease to the Capital adjustment account of £6.7 million.
- An adjustment to reduce Local Government Reorganisation debtors by £6.2 million and a corresponding increase to creditors.
- An increase of £5.7 million to both debtors and creditors for Covid grants where the conditions had not been complied with. A corresponding was made to income and expenditure.

We highlight the following misstatements to the financial statements and/or disclosures which management have indicated will remain unadjusted. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be provided within the Letter of Representation:

- Factual error - £3.4 million overstatement of both income and expenditure due to an error in accounting for recharges in the Northamptonshire Children’s Trust consolidated entries.
- Factual error - £0.76 million difference between awarded grant and spent grant to be repaid to a government department (increase both creditors and expenditure)
- Judgemental error in the net assets apportionable from the Northampton Pension Fund. This would increase the pension liability by £2 million, with a corresponding decrease in the pension reserve.
- Judgemental error in investment return apportionable from Northampton Pension Fund of £1 million. This would increase the pension liability, with a corresponding decrease in investment income.

In addition, there have been 48 adjustments to disclosure notes.



04

## Value for Money



# Value for money

## The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

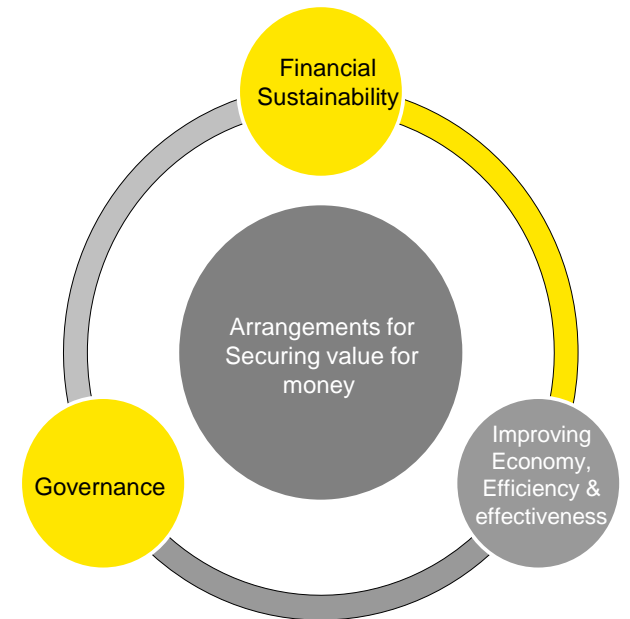
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

In our audit plan we reported to the Committee that we had completed our preliminary VFM risk assessment and identified two areas of focus around arrangements in place in respect of children's services and risk management, both areas were qualified our VFM conclusion in 2019/20:

- **Children's Services** - a revised Statutory Direction was issued to Northamptonshire County Council on 10 June 2019 due to continued poor performance in Children's social care services. This included a Direction for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a wholly owned Council company for the delivery of Children's social care services (or Children's Services trust) in Northamptonshire. Our vfm work for the year ended 31 March 2021 has therefore focussed on progress to address the weaknesses in Children's Services during 2020/21, including the Council's arrangements to established and monitor the delivery of Children's social care services by the Northamptonshire Children's Trust.
- **Risk management** - The Council had a history of weaknesses in its risk management framework. We concluded, in 2018/19 and 2019/20, that there were significant weaknesses in arrangements and qualified our value for money conclusion in this respect. Our vfm work has focussed on how the Council addressed risk management weaknesses identified in 2019/20, specifically maintenance of risk registers, controls intended to address the risks, and training provided to staff on the risk management framework.

We completed our detailed VFM planning and revisited our risk assessment at the execution stage of the audit and have not identified any additional risks.





## Value for money risks

What is the significant value for money risk?	What arrangements did the risk affect?	What we did?
<p><b>Children's Services</b></p> <p>Inspections of Children's Services undertaken by Ofsted in 2016 and 2018 assessed the service as 'requires improvement' in all areas.</p> <p>Ofsted undertook one inspection during 2019/20, in June 2019. The Council were rated inadequate in 3 of the 4 areas of inspection. The Ofsted report stated <i>"Northamptonshire's Children's Services are failing to keep children safe. While some progress has been made since the Ofsted focused visit in October 2018, there remains a range of significant weaknesses in services whose effectiveness is central to protecting children"</i>.</p> <p>A revised Statutory Direction was issued to Northamptonshire County Council on 10 June 2019 due to continued poor performance in children's social care services. This included a Direction for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a wholly owned Council company for the delivery of Children's social care services (or Children's Services trust) in Northamptonshire.</p> <p>Northamptonshire Children's Trust was established on the 1st November 2020 to deliver children's social care services on behalf of the Council.</p>	<p>Take informed decisions</p>	<p>Our approach focused on reviewing the Council's progress to address the weaknesses in Children's Services during 2020/21.</p> <p>As part of this we considered:</p> <ul style="list-style-type: none"> <li>➤ Whether or not the Council made progress against the Northamptonshire Children's Improvement Plan;</li> <li>➤ The impact of the actions taken by the Council to respond to the report findings and improve the performance of the service by reference to any external or internal reviews; and</li> <li>➤ The Council's arrangements to established and monitor the delivery of Children's social care services by the Northamptonshire Children's Trust.</li> </ul> <p>On the basis of the work we conclude the Council did not have proper arrangements to respond to the recommendations raised by Ofsted during 2020/21. We will therefore be reporting by exception on the Council's proper arrangements for securing economy, efficiency, and effectiveness in the use of resource in the form set out in Appendix F.</p> <p>We have provided more detail on our findings on the following pages.</p>





# Value for money risks

### Detailed findings from our work on the Children's Services vfm risk?

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements.*

Ofsted undertook one inspection during 2019/20, in June 2019. The Council were rated inadequate in 3 of the 4 areas of inspection. The Ofsted report stated *"Northamptonshire's Children's Services are failing to keep children safe. While some progress has been made since the Ofsted focused visit in October 2018, there remains a range of significant weaknesses in services whose effectiveness is central to protecting children"*.

A revised Statutory Direction was issued to Northamptonshire County Council on 10 June 2019 due to continued poor performance in children's social care services. This included a Direction for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a wholly owned Council company for the delivery of Children's social care services (or Children's Services trust) in Northamptonshire.

Ofsted undertook a focused visit in October 2020. The report stated that *"Despite unprecedented times due to the COVID-19 pandemic, inspectors found convincing evidence that services for children and young people in Northamptonshire are starting to improve, albeit from a very low base"*. The Ofsted report recognised that the Council *"are working diligently to address the serious and widespread safeguarding concerns that were identified at the ILACS11 inspection in June 2019, and to sustain the improvements that they have achieved in the past year.12"*. The Council made efforts to improve arrangements since June 2019, and these were recognised by Ofsted in its October report. However, the actions taken had not addressed each weakness sufficiently to achieve a rating of 'good' in Ofsted's evaluation.

Ofsted undertook a further monitoring visit in February 2021. In this visit, the inspectors aimed to review the progress made by the Council with the report stating that *"Children's Services transferred to Northamptonshire Children's Trust on 1 November 2020. The trust has continued to build on the positive changes that were already taking place, supported by a permanent director of children's services and the appointment of an experienced chief executive officer"*. Our review of the February 2021 report suggested further improvements had been made since the October 2020 visit, and some weaknesses identified in June 2019 inspection had also been addressed. Nonetheless, there were still a considerable number of weaknesses and actions still to be implemented. Whilst actions have been taken to improve Children's Services, those actions were not fully implemented and operational through 2020/21.

We conclude the Council did not have proper arrangements to respond to the recommendations raised by Ofsted during 2020/21. We will therefore be reporting by exception on the Council's proper arrangements for securing economy, efficiency, and effectiveness in the use of resource.

We also considered the Council's arrangements to establish and monitor the delivery of Children's social care services by the Northamptonshire Children's Trust. We reviewed the Memorandum of Understanding for the Children's Trust and the Council's Children's Trust governance documents. Council arrangements were established to monitor the Trust. For example, the guiding principles, key representatives, stages of establishment, the new organisation model and the Service Delivery Contract were outlined in those documents.

Review of the Committee minutes, Children's Social Care Improvement Board minutes, and the Ofsted February 2021 report provided evidence of the Council's arrangements to maintain its responsibility to monitor the delivery of Children's Services. The February 2021 Ofsted visit reported *"the Trust has continued to build on the positive changes that were already taking place"*.

We did not identify significant weaknesses in arrangements concerning the establishment and monitoring of the Children's Trust during the year under review.



## Value for money risks

What is the significant value for money risk?	What arrangements did the risk affect?	What we did?
<p><b>Risk management</b></p> <p>The Council had a history of weaknesses in its risk management framework. We concluded, in 2018/19 and 2019/20, that there were significant weaknesses in arrangements and qualified our value for money conclusion in this respect.</p> <p>The Council has a risk register and has considered specific controls to mitigate the risks identified. Review of the risk registers presented to the Council in prior years however identified flaws and lack of detail in the risks and controls. For example, risks were not sufficiently detailed and it was unclear which controls are intended to address which risks. In addition, the Council had not documented any consideration of the effectiveness of the deployed controls, nor indicated how the adequacy assessment was made. Internal Audit's review of the Corporate Risk Register in 2019/20 found some of the risks were missing triggers and there were omissions from the control environment.</p> <p>This results in a risk that failure to properly identify, address and monitor risks will limit the Council's ability to make informed decisions and deploy resources sustainably.</p>	<p>Take informed decisions / Deploy resources in a sustainable manner</p>	<p>Our approach focused on reviewing the arrangements at the Council during 2020/21.</p> <p>As part of this we considered:</p> <ul style="list-style-type: none"> <li>➤ Whether or not the risk registers were effectively maintained by the Council, and reviewed and updated on a regular basis;</li> <li>➤ Whether risks were sufficiently detailed concerning the controls intended to address the risks;</li> <li>➤ How the Council addressed risk management weaknesses identified by Internal Audit in 2019/20, and</li> <li>➤ Identifying and obtaining evidence of how training is provided to staff on the risk management framework.</li> </ul> <p>On the basis of the work we conclude there were significant weaknesses in risk management arrangements during 2020/21. We will therefore be reporting by exception on the Council's proper arrangements for securing economy, efficiency, and effectiveness in the use of resource. in the form set out in Appendix F.</p> <p>We have provided more detail on our findings on the following pages.</p>



# Value for money risks

### Detailed findings from our work on the Risk management vfm risk?

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls; including arrangements to prevent and detect fraud.*

The creation and maintenance of a risk register shows the Council had a proactive approach to risk management, and that it had considered specific controls to mitigate the risks identified. Review of the risk registers presented to the Council throughout the year however identified flaws and lack of detail in the risks and controls. For example, the criteria to assess risks were unclear with some risks lacking sufficient action plans. Moreover, not all triggers had corresponding controls to address them. The comparison of risk registers throughout the year also suggested that some risks had not been updated on a timely basis.

Overall, despite regular review of the risks by the Audit Committee, many risks had not been updated to reflect the changes in the risk landscape and the Corporate Risk Register was not sufficiently comprehensive. This limited the Council's ability to identify, monitor, and mitigate the risks. In addition, the apparent lack of focus from the Council to address the weaknesses previously identified increased the risk of limited improvement on risk management which could negatively impact the Council's ongoing ability to make informed decisions.

We conclude there were significant weaknesses in risk management arrangements during 2020/21. We will therefore be reporting by exception on the Council's proper arrangements for securing economy, efficiency, and effectiveness in the use of resource.



## 05 Other reporting issues

## Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

In addition to our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

The Council did not complete a Whole of Government Accounts (WGA) return, and we were therefore unable to complete the WGA audit procedures as instructed by the National Audit Office (NAO). The Comptroller and Auditor General of the NAO has now issued his Certificate and Report on Whole of Government Accounts for 2020/21. There are therefore no further WGA audit requirements.

## Other reporting issues

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

There are still legacy issues faced by the closedown team in retrieving documents to support audit questions, but the current year audit has been significantly smoother in most areas. We would however note that, although the working papers have improved significantly, further improvements are still required to support grant income, group consolidation procedures, earmarked reserves, journals, debtors and creditors.

Section 06 provides an overview of the ‘high’ ‘moderate’ and ‘low’ rated observations we have from the 2020/21 audit.



06

## Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Due to the subsequent demise of the Council, we have not raised formal recommendations in respect of our other control observations however we wish to highlight the following matters which may be of interest to management of the successor West Northamptonshire Council.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2020/21 audit. The matters identified are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to management. Details on the open control observations are set out on the following page.

	High	Moderate	Low	Total
Number of open observations at the start of the audit	4	8	0	12
New observations noted in 2020/21	0	0	0	0
Control observations closed in 2020/21	3	4	-	7
Number of open control observations at the conclusion of the audit	1	4	0	5

### Key:



A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.



Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.



Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.





# Assessment of Control Environment

## Financial controls - open control observations

### High rated observations

- The draft 2018/19 Statement of Accounts contained a significant level of errors and required a number of material adjustments, material disclosure amendments, and prior period adjustments. The adequacy of supporting processes and records resulted in a significantly protracted audit period, taking up additional resources, both of audit and Council interim staff, to resolve queries. The close-down team relied on interim appointments which has inevitably resulted in a loss of corporate memory. The successor Council brought in additional staff who have the skills to support the audit and the working papers improved.

There remain some legacy issues where individuals who performed transactions are no longer working for either of the successor bodies, so although the number of significant issues identified within our audit reduced from the level identified in 2018/19, we have still encountered significant challenges in completing the audit and identified a large number of findings.

### Moderate rated observations

- There were three moderate open control observations concerning journal control weaknesses:
  - Adequacy of documentation and evidence to support journal entries.
  - Segregation of duties for journal posting. When a preparer does not have auto-approval, the journal is sent on to the budget holder for approval. We noted journals where the budget holder is also the preparer.
  - Systems team access. The Systems team have auto-approval access. Where a journal is raised by the systems team the journal should be supported by a workflow. We identified journals raised by the Systems team where workflows had not been produced or retained in the system.
- Debtors and creditors. There were a large number of transactions within the subledger listings at year-end, a significant portion of which included corresponding contra entries, reducing the overall balance on the subledger. Management undertook work to “match off” the contra entries in the listings, but there were still a large number that management did not have the capacity to clear. This abundance of transactions increased the amount of work necessary to analyse and substantively test the debit and credit entries in the balances, whilst also increasing the number of items in our samples. Given that some contra entries were not matched off due to slight differences in the ledger transactions, there were items selected for testing that ultimately should have been removed from the population.



07

Independence

## Independence

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### Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated January 2022.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee on 21 November 2023.

### Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in have been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

Description	Final Fee 2020/21 £	Scale Fee 2020/21 £	Final Fee 2019/20 £
Statutory Base scale fee	105,998	105,998	105,998
Changes in work required to address professional and regulatory requirements and scope associated with risk and specific audit findings	TBC	-	261,080
<b>Total audit fee</b>	<b>TBC</b>	<b>105,998</b>	<b>367,078</b>
Non-audit services	0	-	0
<b>Total fees</b>	<b>TBC</b>	<b>105,998</b>	<b>367,078</b>

For the 2018/19 audit, we agreed with PSAA that we would agree an amended scale fee to reflect the level of additional risk in the audit. We calculated this amended scale fee based on the overall level of increased risk as well the specific risks we identified. Based on the level of risk identified and difficulties encountered we submitted the fee to PSAA for their approval; this was done following agreement with the Council Section 151 Officer and Commissioners. PSAA approved an additional fee of £691,000.

A similar process followed for 2019/20, for which we submitted an additional audit fee of £313,206. PSAA approved an additional fee of £261,080.

We will inform management of our final fee for our 2020/21 audit following completion of our audit. As highlighted within this report, we have encountered significant difficulty in the execution of our audit and had to respond to a high number of audit differences and issues. This significant additional audit effort will be reflected in our final fee proposal. We have set out below areas where additional audit procedures were required in 2020/21. Further work is required to analyse the costs incurred in delivering our audit, however we currently anticipate the additional fees commensurate with the effort required to be in the range £350,00 - £400,000.

- Group audit procedures on Northamptonshire Children's Trust.
- Specialist review of the Shall PFI model following project variations.
- Specialist review of the original and revised valuation report for One Angel Square.
- Testing of Covid grants.
- Extending the period covered by Going Concern arrangements.

## Other communications

### EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

[ey-uk-2023-transparency-report.pdf](#)

A hand is shown reaching towards a row of hanging folders. The folders are filled with papers and are organized in a filing cabinet. The background is a textured wall.

# 08 Appendices




## Appendix A

# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.



Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

Balance sheet category 	Current Year Audit Approach	Prior Year Audit Approach 	Explanation for change 
<ul style="list-style-type: none"> <li>▶ Property, plant and equipment</li> <li>▶ Investment property</li> <li>▶ Long term debtors</li> <li>▶ Assets held for sale</li> <li>▶ Cash and cash equivalents</li> <li>▶ Short term debtors</li> <li>▶ Bank overdraft</li> <li>▶ Short term creditors (incl Receipts in advance)</li> <li>▶ Short and long term borrowings</li> <li>▶ Short and long term provisions</li> <li>▶ PFI liability (short and long term)</li> <li>▶ Liability related to Defined Benefit Pension Scheme</li> <li>▶ Capital grants received in advance</li> <li>▶ Useable and unusable reserves</li> </ul>	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
<ul style="list-style-type: none"> <li>▶ Intangible assets</li> <li>▶ Heritage assets</li> <li>▶ Long term investments</li> <li>▶ Inventories</li> </ul>	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A

## Appendix B

# Summary of communications

Date 	Nature 	Summary 
January 2022 to April 2022	Meeting	The Audit Partner met with the Executive Director of Finance to discuss the Council's strategy and performance, and the audit plan.
January 2022	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Audit and Governance Committee.
February 2022	Instructions	The audit team sent the group audit instructions to Crowe, as the external auditor for the Council's subsidiary Northamptonshire Children's Trust
April 2022	Report	The audit team presented our provisional Audit Results Report, including confirmation of our independence, to the Audit and Governance Committee
Various	Verbal Update	The audit team has provided an update on the status of our audit at meetings of the Audit and Governance Committee between April 2022 and June 2023.
November 2023	Report	The audit team will present our final Audit Results Report, including confirmation of our independence, to the Audit and Governance Committee.

In addition to the above specific meetings and reports, the audit team have met weekly with the financial statement closedown team throughout the audit period to discuss the arrangements for the 2020/21 audit, emerging findings, completion of our audit procedures and the status of our audit. We have also held ad-hoc meetings on specific audit matters, as required. Management of West Northamptonshire Council also attended these calls on occasion.





Prior to the dissolution of Northamptonshire County Council on 31 March 2021, we also met with senior management of the Council to discuss the key issues known to be relevant to our 2020/21 audit, including the Council's arrangements to produce the first set of Group financial statements. Written enquiries were also made of senior management and the Northamptonshire County Council Audit Committee at the end of March 2021 into matters relevant to our 2020/21 audit.






## Appendix C

# Required communications with the Audit and Governance Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - presented to the Audit and Governance Committee on January 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - presented to the Audit and Governance Committee on January 2022
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022  Audit Results Report (this report)

## Appendix C – continued

		Our Reporting to you
Required communications	 What is reported?	  When and where
Major Local Authorities	<p>For the audits of financial statements of major local authorities our written communications to the Audit and Governance Committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	<p>Audit Plan - presented to the Audit and Governance Committee on January 2022</p> <p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>

## Appendix C – continued





		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about the Council’s ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	<p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.</li> </ul>	<p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>







## Appendix C – continued

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan - presented to the Audit and Governance Committee on January 2022</p> <p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>

## Appendix C – continued

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of</li> </ul>	Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022  Audit Results Report (this report)
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022  Audit Results Report (this report)




## Appendix C – continued

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components;</li> <li>▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components;</li> <li>▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work;</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted;</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	<p>Audit Plan – presented to the Audit and Governance Committee on January 2022</p> <p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	<p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	<p>Provisional Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Audit Results Report (this report)</p>
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	<p>Audit Results Report (this report)</p>
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the Audit Plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	<p>Audit Plan – presented to the Audit and Governance Committee on January 2022</p> <p>Audit Results Report (this report)</p> <p>Auditors annual report</p>

## Appendix D

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and Management
Management Representation Letter	Receipt of signed management representation letter	Management
Agreement of Final set of Accounts	Agree all changes made to draft accounts are updated in the final set of accounts.	EY and Management
Final Review Procedures	Final review of areas listed above	EY



## Appendix E

# Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Northamptonshire County Council ("the Group and Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Northamptonshire County Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. **We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].<sup>2</sup>**

#### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. *[When management is aware of the occurrence of non-compliance with laws or regulations, or has received allegations of non-compliance with laws and regulations.]* We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:





## Appendix E

# Management representation letter

### Management Rep Letter

- involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.<sup>3</sup>
5. *[When management is not aware of the occurrence of non-compliance with laws and regulations, and has not received allegations of non-compliance with laws and regulations]* We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
- involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.<sup>4</sup>
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Group, and committees *[add the full title of the relevant committees]* (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]* and of the [Council], and committees *[add the full title of the relevant committees]* (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework]
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such



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# Management representation letter

### Management Rep Letter

unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

#### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and [council] financial statements.
2. We have informed you of all outstanding and possible litigation and claims, ~~whether or not~~ they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the consolidated and council financial statements all guarantees that we have given to third parties.
4. The ..... claim by [name of claimant] have been settled for the total sum of XXX which has been properly accrued in the consolidated and [council] financial statements. No other claims in connection with litigation have been or are expected to be received.

#### E. Going Concern

1. Note XX to the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### F. Subsequent Events

1. Other than ..... described in Note [X] to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

#### G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group ~~unrealised~~ profits on transactions amongst [council], subsidiary undertakings and associated undertakings.

#### H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

#### I. Ownership of Assets

1. The Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note [X] to the financial statements. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

#### J. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

#### K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

- (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, *[continue listing as appropriate]*) none of which involves any allegations of non-compliance with laws or regulations that should be considered for disclosure in the consolidated and [council] financial statements or as a basis for recording a loss contingency.
- (2) Matters referred to in the letters dated [date] issued to you by the [Council]'s Monitoring Officer and the [Council]'s legal advisor.
- (3) Matters referred to in the letter of comments received from the [name of regulator] regarding ....
- (4) .....

#### L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment valuations, Investment Property valuations, and Pensions IAS19 liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists



## Appendix E

# Management representation letter

### Management Rep Letter

with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **M. Estimates (Property, Plant and Equipment, Investment Property, Provisions, and Pension Liabilities)**

1. We confirm that the significant judgments made in making the accounting estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimate.
3. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimate.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

#### **N. Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

#### **O. Climate-related matters**

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, aligned with the statements we have made in the other information or other public communications made by us

*Yours faithfully,*

\_\_\_\_\_  
(Chief Financial Officer)

\_\_\_\_\_  
(Chair of the Audit and Governance Committee)



## Appendix F

# Audit Report

### Audit Report

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHAMPTONSHIRE COUNTY COUNCIL (DEMISED)

##### Opinion

We have audited the financial statements of Northamptonshire County Council ('the Authority') and its subsidiary (the 'Group') for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- the related notes 1 to 47, and Group Accounts notes G1 to G8.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Northamptonshire County Council and the Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Emphasis of matter – Local government reorganisation

We draw attention to Note 1 and Note 5 which disclose the local government reorganisation in Northamptonshire. As stated in this disclosure, two new councils called West Northamptonshire Council and North Northamptonshire Council replaced the Authority in April 2021. The Authority's assets, liabilities, services, and functions transferred to the new North Northamptonshire Council and West Northamptonshire Council on 1 April 2021. Our opinion is not modified in respect of this matter.

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Executive Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Authority's ability to continue as a going concern for a to 31 March 2025.

Our responsibilities and the responsibilities of the Executive Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

##### Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Executive Director of Finance responsible for the other information contained within the Statement of Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

##### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014

We have nothing to report in these respects.

We report to you, if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2021.

##### Significant weaknesses in arrangements

OFSTED inspection findings

Our judgement on the nature of the weakness identified:



# Appendix F

## Audit Report

### Audit Report

OFSTED rated the Council's Children's Services in June 2019 as inadequate in 3 of the 4 areas of inspection. The OFSTED report stated "Northamptonshire's Children's Services are failing to keep children safe. While some progress has been made since the Ofsted focused visit in October 2018, there remains a range of significant weaknesses in services whose effectiveness is central to protecting children".

A revised Statutory Direction was issued to Northamptonshire County Council on 10 June 2019 due to continued poor performance in Children's social care services. This included a Direction for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a wholly owned Council company for the delivery of Children's social care services (or Children's Services trust) in Northamptonshire.

Ofsted undertook a focused visit in October 2020. The report stated that "Despite unprecedented times due to the COVID-19 pandemic, inspectors found convincing evidence that services for children and young people in Northamptonshire are starting to improve, albeit from a very low base".

The Ofsted October 2020 report stated that the Council "are working diligently to address the serious and widespread safeguarding concerns that were identified at the ILACS11 inspection in June 2019, and to sustain the improvements that they have achieved in the past year.12". The Council has clearly made efforts to improve arrangements since June 2019, and these were recognised by Ofsted in its October report. However, the actions taken had not addressed each weakness sufficiently to achieve a rating of 'good' in Ofsted's evaluation.

Ofsted undertook a monitoring visit in February 2021. In this visit, the inspectors aimed to review the progress made by NCC with the report stating that "Children's Services transferred to Northamptonshire Children's Trust on 1 November 2020. The trust has continued to build on the positive changes that were already taking place, supported by a permanent director of children's services and the appointment of an experienced chief executive officer".

Review of the February 2021 report suggested further improvements had been made since the October 2020 visit, and some weaknesses identified in June 2019 inspection had also been addressed. Nonetheless, there were still a considerable number of weaknesses to be dealt with.

Our work confirmed the Council had not yet fully addressed the areas of concern identified by OFSTED. Whilst actions have been taken to improve Children's Services, those actions were not fully implemented and operational through 2020/21.

The evidence on which our view is based is:

- OFSTED focused visit Oct 2020 and monitoring visit February 2021
- Council committee papers setting out and monitoring progress on the OFSTED recommendations

The impact on Northamptonshire County Council:

Following the inadequate rating by OFSTED in 2019, the Council's Children's Services department has faced increased central government intervention. A revised Statutory Direction was issued to Northamptonshire County Council in 2019 due to continued poor performance in Children's services and there have now been two visits since the inadequate rating in 2019. As subsequent monitoring and focused OFSTED visits have identified improvement and plans for further improvement, further escalation by OFSTED to request Secretary of State intervention has not been required.

The action Northamptonshire County Council needs to take to address the weakness:

On 1 April 2021, all of the functions and services of the Council transferred to the newly created North Northamptonshire Council and West Northamptonshire Council.

We therefore recommend that management of North Northamptonshire Council and West Northamptonshire Council, as the successor bodies to Northamptonshire County Council, should consider the extent to which the weaknesses in arrangements identified at Northamptonshire County Council may still be applicable to the new authorities and develop an action plan to address any extant weaknesses identified.

It will be the responsibility of the external auditor of North Northamptonshire Council and West Northamptonshire Council to consider whether the successor body has adequately considered the weaknesses reported and taken appropriate actions against our recommendation.

This issue is evidence of weaknesses in proper arrangements for Governance and how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements.

#### Risk Management

Our judgement on the nature of the weakness identified:

The creation and maintenance of a risk register shows the Council has a proactive approach to risk management, and that it has considered specific controls to mitigate the risks identified. Review of the risk registers indicates that most weaknesses previously identified have not been addressed. For example, the criteria to assess risks were unclear with some risks lacking sufficient action plans. Moreover, not all triggers had corresponding controls to address them, and some risks were not sufficiently detailed. The comparison of risk registers throughout the year also suggested that some risks have not been updated on a timely basis.

Overall, despite regular review of the risks by the Audit Committee, many risks have not been updated to reflect the changes in the risk landscape and the Corporate Risk Register was not sufficiently comprehensive. This limits the Council's ability to identify, monitor, and mitigate the risks. In addition, the apparent lack of focus from the Council to address the weaknesses previously identified increases the risk of limited improvement on risk management which could negatively impact the Council's ongoing ability to make informed decisions.

The issue is evidence of weaknesses in proper arrangements for informed decision making through demonstrating and applying arrangements for managing risks effectively.

The evidence on which our view is based:

- Annual Governance Statement (including the Head of Internal Audit's opinion for 2020/21)
- Council committee papers setting out and monitoring progress on risk management
- Corporate risk register

The impact on Northamptonshire County Council:

On 1 April 2021, all of the functions and services of the Council transferred to the newly created North Northamptonshire Council and West Northamptonshire Council.

We therefore recommend that management of North Northamptonshire Council and West Northamptonshire Council, as the successor bodies to Northamptonshire County Council, should consider the extent to which the weaknesses in arrangements identified at Northamptonshire County Council may still be applicable to the new authorities and develop an action plan to address any extant weaknesses identified.

It will be the responsibility of the external auditor of North Northamptonshire Council and West Northamptonshire Council to consider whether the successor body has adequately considered the weaknesses reported and taken appropriate actions against our recommendation.

This issue is evidence of weaknesses in proper arrangements for Governance and how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls.



## Appendix F

# Audit Report

### Audit Report

#### Responsibility of the Executive Director of Finance

As explained more fully in the Statement of the Executive Director of Finance Responsibilities set out on page 22, the Executive Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Group and Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Executive Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### *Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Transport Act 2000,
- Education Act 2002 and school Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2021,
- National Health Service Act 2006,
- Local Government Pension Scheme Regulations 2013 (as amended),
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Northamptonshire County Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit, and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Group and the Authority's committee minutes, through enquiry of employees to confirm Group and the Authority policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Group and the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance through, inappropriate capitalisation of revenue expenditure, inappropriate classification of revenue expenditure funded by capital under statute, inappropriate application of cut-off, and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of inappropriate classification of revenue expenditure funded by capital under statute we tested the Authority's revenue expenditure funded by capital under statute to ensure the classification criteria were properly met and the expenditure was genuine.

To address our fraud risk of inappropriate application of cut-off we tested Authority transactions either side of the financial year end to ensure transactions were accounted for in the correct financial period.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether the Northamptonshire County Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Northamptonshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.



## Appendix F

# Audit Report

### Audit Report

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Northamptonshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, [efficiency](#) and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, [efficiency](#) and effectiveness in its use of resources are operating effectively.

#### Certificate

We certify that we have completed the audit of the accounts of Northamptonshire County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

#### Use of our report

This report is made solely to the members of Northamptonshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janet Dawson (Key Audit Partner)  
Ernst & Young LLP  
London  
[\[date\]](#)

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