Northampton Borough Council

Annual Audit Letter for the year ended 31 March 2019

July 2021

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 (updated April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of Responsibilities and the Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have not put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest. We do however note that KPMG issued a public interest report in respect of the loan to Northampton Town Football Club, which took place prior to the period under audit, on 27 January 2021.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Whole of Government Accounts (WGA):	
► Reporting to the National Audit Office (NAO) on our review of the Council's WGA return	Due to the delayed timing of our audit, no audit procedures were performed over the Council's WGA return as the NAO issued their opinion on the 2018-19 WGA on 21 July 2020.

Executive Summary (continued)

As a result of the above we have:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 March 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 8 April 2021.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Section 2

Purpose and responsibilities

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report presented to the 25 March 2021 meeting of the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Planning Report that we issued on 24 January 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

We undertake any other work specified by the Code of Audit Practice or Public Sector Audit Appointments Limited (PSAA).

Responsibilities of the Council

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial statement audit

Financial statement audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 8 April 2021.

Our detailed findings were reported to the 25 March 2021 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in International Standard on Auditing (UK) 240 (ISA 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. In addition, during the course of our audit we have held discussions with Northamptonshire Police in respect of their ongoing investigation into the football club loan. We have also read the KPMG public interest report, published on 27 January 2021, in respect of the loan. From these sources, we have identified additional factors which we consider to be relevant to the risk of misstatement due to fraud or error and requiring additional audit response.	**What we did:** We tested a sample of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements to ensure they were appropriate. Sample items were identified for testing based upon characteristics which could be indicative of management override. We reviewed accounting estimates for evidence of management bias. We evaluated the business rationale for any significant and/or unusual transactions. We reviewed Council and Cabinet minutes since 2014, along with 2011 political party manifestos, to identify significant commitments made by the Council. Where commitments were identified we reviewed the accounting treatment of balances impacting the 2018/19 accounts and, for commitments commencing during 2018/19, we reviewed the governance processes around approval of those commitments. **Our conclusions:** We did not identify any material weaknesses in controls which indicated material management override. In reaching this conclusion we have considered the cause and effect of material levels of misstatement identified during the course of our audit and whether they indicated deliberate manipulation of the financial statements, and are content that they did not. We did not identify any transactions during our audit which appeared unusual or outside of Northampton Borough Council's normal course of business. We did not identify any matters to report from our review of council's commitments and governance processes in respect of investments approved during 2018/19.

Financial statement audit (continued)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition 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 considered this risk most likely to manifest in the inappropriate classification of revenue expenditure as capital expenditure.	**What we did:** We sample tested additions to property, plant and equipment to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. We reviewed and tested Revenue Expenditure Funded from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately funded from capital. As part of our journal testing strategy, we reviewed unusual journals related to capital expenditure posted around the year-end, for example where the debit was to capital expenditure and the credit to income and expenditure. **Our conclusions** Our testing has not identified any misstatements arising from fraud in revenue and expenditure recognition, or other matters relating to this risk to bring to your attention.

Financial statement audit (continued)

Significant Risk	Conclusion
Valuation of land and buildings The fair value of property, plant and equipment (PPE), investment properties (IP) and heritage assets 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 for land and buildings, surplus assets and investment properties in particular. The valuation of non-current assets is performed by an external valuer and relies upon significant estimation and assumptions. We focus our work on the appropriateness of the valuer's work and the assumptions used to value non-current assets.	**What we did:** We 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. We sample tested key asset information used by the valuer in performing their valuation (for example, floor plans to support valuations based on price per square metre). We considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme, as required by the Council's reporting framework. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer, and reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of a number of higher risk asset valuations. **Our conclusions** We encountered difficulty auditing the valuations of some non-current assets due to the Council being unable to provide the necessary explanations or obtain them from the external valuer who undertook the valuations (Avison Young), who we note ceased to be the Council's external valuer after the 2018/19 cycle. Where these difficulties could not be resolved, management had to seek revised valuations from the Council's current external valuer (Wilks Head and Eve). As we were unable to test the original valuations, differences between the original and revised valuations have been treated as audit differences. Where we were able to complete our testing of asset valuations, we noted a number of issues including valuations based upon incorrect information (e.g. terms of existing tenancies and asset areas) and assets being incorrectly classified, resulting in the wrong valuation methodology being applied. We also challenged management as to whether changes to the capital programme, arising from the local government reorganisation, should result in impairment of assets under construction. A £5.3m impairment was subsequently recognised. In aggregate, we identified gross misstatement of £20.0m with a net impact on the balance sheet of overstating assets by £3.6m. Management have adjusted the financial statements for £19.0m of these misstatements.

Financial statement audit (continued)

Other key findings	Conclusion
Valuation of defined benefit pension liabilities Accounting for the participation in the Local Government Pension Scheme (LGPS) involves significant estimation and judgement, therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed in the financial statements is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	**What we did:** We assessed the work of the Pension Fund actuary, including the assumptions they have used, by relying on the work of PWC as consulting actuaries commissioned by the National Audit Office for all Local Government sector auditors and the review of this work by our own EY actuarial team. We were able to conclude that the work of the actuary was appropriate. We liaised with the auditors of the Northamptonshire Pension Fund to obtain assurance over the information supplied to the actuary in relation to Northampton Borough Council. We reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to defined benefit pensions. **Our conclusions** The initial valuation of the Authority's net pension liability included the valuation of pension assets as at 31 December 2018, adjusted for cash movements between 31 December 2018 and 31 March 2019. The actual valuation of pension assets as at 31 March 2019 materially differed from this assumption, therefore management had the actuary revise their calculations. The revised calculations were prepared prior to, and reflected in, the draft financial statements presented for audit. In addition, the valuation of the Authority's pension liabilities as at 31 March 2019 included the estimated impact of addressing age discrimination within the LGPS highlighted by the McCloud legal case. On 16 July 2020, the Ministry for Housing, Communities and Local Government (MHCLG) published the proposed remedies for removing age discrimination from the LGPS for consultation. On 4 February 2021, MHCLG announced the final proposed remedies. The valuation of scheme liabilities as at 31 March 2019 does not include the impact of the proposed remedies, as they were announced after the valuation was prepared. We have engaged our EY Pensions specialists to help us confirm that the impact of applying the proposed remedies would not be material to the Authority's pension liabilities. We have no other matters to report in respect of this risk.

Financial statement audit (continued)

Other key findings	Conclusion
IFRS 9 Financial Instruments / **IFRS 15 Revenue from contracts with customers** New accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, are effective for 2018/19 and introduce significant changes to the accounting treatment and financial statements disclosures in respect of financial instruments and revenue. Management will need to ensure the financial statements comply with the new standards.	**What we did:** We assessed the authority's implementation of the new accounting standards, including management's assessment of the impacts of the new standards on the Authority's and Group's financial statements. We reviewed the classification and valuation of financial instruments against the requirements of the new standard and reviewed management's determination of expected credit losses, a new approach under IFRS 9 to the recognition of impairments. We considered the applicability of the new revenue standard to the authority's revenue streams, and where the standard applies performed sample testing to ensure that revenue had been recognised in accordance with the new standard. **Our conclusions** The financial instrument disclosures within the draft financial statements presented for audit did not reflect the requirements of the new standard, for example by continuing to use the financial instrument classifications of the previous standard. Management have subsequently revised the financial instrument disclosures to ensure they are consistent with the new standard. In addition, we noted several misstatements within financial instrument balances which were not specifically related to the adoption of the new standard. We have no matters to report in respect of the application of IFRS 15.
Contracts and procurement The Council incurs material annual expenditure under contracts with third parties. A risk of misstatement arises from the risk that these contracts are not appropriately accounted for, including the risk of omission or that amounts are recorded in the incorrect period.	**What we did:** We have obtained and read significant contracts, agreements, and similar documents and considered their accounting or auditing implications. We have analysed the results of our expenditure testing and considered whether this indicates that contract registers may not be complete. We have undertaken sample testing to confirm the correct procurement processes were followed. **Our conclusions** We have no matters to report in respect of contracts and procurements.

Financial statement audit (continued)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality for the Council's financial statements to be £1.9m, which was 1% of the gross expenditure on the provision of services as understood at the time of our audit. The gross expenditure on the provision of services in the final statement of accounts is £234m, following changes to the accounts presentation during the audit. We consider the gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £97k.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

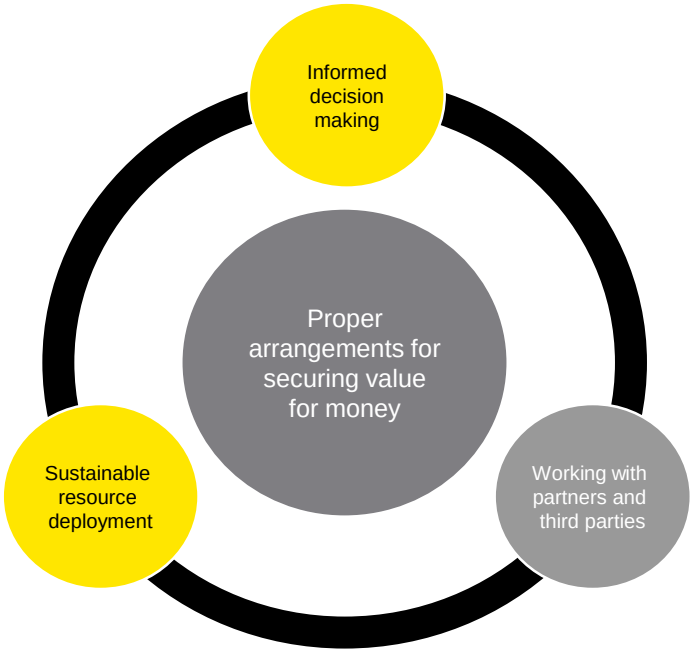
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

We identified three significant risks in relation to these arrangements. The table below presents the findings of our work in response to the risk identified.

We have performed the procedures outlined in our audit plan.

We have the following matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources:

- At 31 March 2018, the Authority had 6 actions from its Governance Action Plan which were not yet implemented. The Governance Action Plan was closed in September 2018 with 2 of these actions noted as outstanding. In addition, the management commentary on a number of completed actions noted that there were further actions required to fully implement the recommendations. We reviewed management updates provided in September 2018 and January 2020 and concluded that 4 of the 6 actions outstanding at 31 March 2018 remained at least partially outstanding at 31 March 2019. We were therefore unable to conclude that the Governance Action Plan was fully implemented and embedded during 2018/19, and were therefore unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result, we issued an adverse value for money opinion.



Value for Money (continued)

Significant Risk	Conclusion
Governance Action Plan The Council has a Governance Action Plan that was established in December 2016. The predecessor auditor reported that while good progress had been made, as of 31 March 2018 the plan had not been fully implemented in that year. This resulted in an adverse value for money conclusion.	At 31 March 2018, the Council had implemented 42 of the 48 actions included within the Governance Action Plan and considered 5 of the remaining 6 actions to have been partially implemented. The six actions which had not been fully implemented prior to 2018/19 were all deemed to be high priority and included the establishment of a due diligence manual, delivery of the 'Licence to Practice Organisational Development and Training Plan' and delivery of a mandatory training programme on project programmes and major project competencies. Following new appointments to several senior posts within the Council during the first half of 2018, management undertook a review of the remaining elements of the Governance Action Plan and determined that aspects of the Governance Action Plan established in December 2016 no longer reflected the needs of the Council in 2018/19. Management has continued during 2018/19 to build on the progress made against the Governance Action Plan in prior years, and formally closed the Governance Action Plan in September 2018. We do however note that there are significant elements of the plan which have not been implemented, most notably the development of a due diligence manual and the 'Licence to Practice Organisational Development and Training Plan'. Whilst management has taken steps towards the overall objectives of these elements of the plan, the more informal nature of these steps mean they are not reflected in the formal policies and procedures of the Council and we are therefore unable to conclude these actions are fully embedded in the organisation. We are therefore unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result, we issued an adverse value for money opinion.

Value for Money (continued)

Significant Risk	Conclusion
Football club loan In 2013/14, the Council advanced a £10.25m loan to Northampton Town Football Club, which has not been repaid nor the proceeds recovered. The predecessor auditor identified a lack of a formalised system for documenting the due diligence process for loans, and that the accountability and decision making process was not sufficiently robust. A Public Interest Report on this matter was issued by the predecessor auditor in January 2021. In the 2017/18 ISA 260 report, the predecessor auditor concluded that the actions agreed to address these issues had not been fully implemented as at 31 March 2018. This resulted in an adverse value for money conclusion. The Council has expended significant resources to date to recover monies.	In addition to the loan to Northampton Town Football Club, the Authority has previously loaned £5.5 million to Northampton Rugby Football Club ('the rugby club') in 2014. During 2018/19, the Authority held further discussions with the rugby club over loaning an additional £1.5 million to the club. At the time of considering this proposal, the Authority had not yet implemented its new 'loans checklist' and the due diligence and compliance manual is also still to be completed. There was not therefore a formally defined process for the Authority to follow in assessing the proposal to loan additional amounts to the rugby club. Nevertheless, we have reviewed the process which was followed by the Authority in assessing the proposed loan. The Authority performed a two-stage review of the proposal, an internal assessment by the Authority's Governance and Risk Manager and an external review by Link Asset Management. The external review included consideration of factors identified in the KPMG Public Interest Report as not sufficiently considered in the assessment of the football club loan, including consideration of the financial position and performance of the rugby club, the future cashflow forecasts of the rugby club and compliance with EU state aid regulations. Cabinet approved the loan to the rugby club in February 2019, subject to a number of risks identified by the Authority's review processes being adequately addressed. The rugby club withdrew their request for the loan prior to these points being addressed, therefore we are unable to assess whether these points would have been satisfactorily addressed prior to monies being paid to the rugby club. Up to the point of the loan request being withdrawn, the processes followed by the Authority appear reasonable. The absence of a formally defined process does however increase the risk that future processes may be inconsistent or insufficiently documented. As of March 2019, the Authority had spent £1.6 million on efforts to recover the football club loan, including £662,000 during 2018/19. The majority of these costs relate to legal fees. The legal advice received by the Authority includes advice on the identity of parties from whom recovery could be sought, the quantum of amounts which could be recovered and the probability of successful recovery of monies. As of January 2021, the Authority has recovered £132,000 and expects to realise a further £645,000 from property sales during 2021. Both Deloitte and FRP Insolvency are working with the Authority to recover additional amounts on a contingent fee basis (i.e. no cost to the Authority if no recovery is made). Based on the above factors, specifically the outstanding actions to implement a due diligence and compliance manual and completion of relevant modules of the Licence to Practice Organisational Development and Training Plan, we were unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We do however note the overlap of this conclusion with our conclusion against the previous risk.

Value for Money (continued)

Significant Risk	Conclusion
Financial resilience The local government sector is facing financial challenges. For 2018/19, the Council set a net budget of £28.490 million. This included £1.8 million of savings and efficiencies, incorporating £320,000 from organisation redesign; £1.36 million of increased income and £142,000 of service reductions. The outturn report shows an overspend of £732,000 against budget. Over the medium term, the net budget requirement increases from £27.438 million in 2019/20 to £28.897 million in 2022/23. The Council has identified a savings requirement of £10.8 million over this period. The medium term financial strategy includes assumptions on the level of business rates income and new homes bonus, which will need to be reviewed regularly to ensure they are supportable and any changes reflected in the MTFP. The MTFP also includes use of reserves over the medium term of £4.5 million. The Council does hold £25 million of general reserves to mitigate against specific and general risks faced by the Council.	We have reviewed the financial outturn of the Authority against budget and note that the Authority's revenue activities were delivered with an overspend of £732,000 (2.4%). The main driver of this overspend was higher than anticipated homelessness costs, which are not wholly within management's control. The overspend was partially offset by management achieving savings of £2.48 million against budgeted savings of £1.82 million. The forecast overspend position was reported to senior management and members regularly throughout 2018/19. We have made enquiries of management and reviewed the assumptions used in the 2019-2022 Medium Term Financial Plan (MTFP). We note that management allowed for an additional £1 million spend on homelessness services, compared to the 2018-19 budget, to allow for the overspend in this area during 2018/19. Included within management's budget for 2019/20 were required savings of £1.134 million. We consider this level of savings to have been an achievable level of savings, given the Authority exceeded both this level and the targeted level of savings during 2018/19. Savings prior to 2018/19 were minimal in the Authority's budget, therefore only 2018/19 provides evidence of management's ability to realise planned savings. Overall we are satisfied that the Authority had proper arrangements in place during 2018/19 to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, with regards to management of its financial position and the setting of budgets.

Section 5

Other reporting issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. Due to the delayed timing of our audit, no audit procedures were performed over the Council's WGA return as the NAO issued their opinion on the 2018-19 WGA on 21 July 2020.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

We do however note that KPMG issued a public interest report in respect of the loan to Northampton Town Football Club, which took place prior to the period under audit, on 27 January 2021.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 25 March 2021. 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 regulatory and professional requirements.

Other Reporting Issues (continued)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

Due to the demise of the Authority on 31 March 2021, we have not raised formal recommendations in respect of our control observations however we wish to highlight the following matters which may be of interest to management of the new unitary authority:

- We noted a number of issues with the valuation of non-current assets. A number of these issues could be traced to inaccuracies in the information used by the Council's external valuers to prepare the valuations of assets. We would therefore encourage management of the new authority to consider the controls in place within the new Authority to ensure that information provided to external valuers is accurate, and hence that the valuations received are appropriate.
- We noted errors in the disclosure of future minimum lease commitments which occurred as a result of the Council's finance function not being informed where changes were agreed to the terms of the Council's lease agreements. From 2022/23, the new Authority will be required to adopt a new accounting standard, IFRS 16: Leases, which will require recognition of the Council's material operating lease commitments on the balance sheet. Controls to ensure the completeness and accuracy of lease information will be key to successful implementation of the new standard.
- We observed a minor control deficiency in respect of the basis of recharges from the General Fund to the Housing Revenue Account, for services such as legal and ground maintenance. These recharges, which total £1.88 million, are determined on a percentage of total cost basis, however the percentages used have been in place for a number of years and management were unable to provide support that they remain appropriate. We understand that a review of the basis of recharges to the HRA is already planned for the new Authority.
- During our testing of Council Tax write-offs we were unable to obtain evidence of the rationale for a sample of write-offs or evidence that the write-off was appropriately approved. We understand that management were unable to provide this evidence as these records are retained in individuals' e-mail records, and the relevant individuals are no longer employed by the Council. There is a risk that management are unable to demonstrate write-offs of Council Tax debt are appropriate if records are not formally retained by the Council.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council's successor authority is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	Originally intended to be applicable for local authority accounts from the 2020/21 financial year, the adoption of the new standard has been deferred to avoid placing additional pressure on local authority finance teams during the Covid-19 pandemic. It is current proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year. The main impact of the new standard is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset recognised on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals recognised as expenditure in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. For local authorities who lease a large number of assets the new standard will have a significant impact, with the majority of current leases likely to be included on the balance sheet. There are transitional arrangements within the standard and although the 2022/23 Accounting Code of Practice for Local Authorities will not be issued for some time yet, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2022/23 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the new unitary authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The authority must therefore ensure that all lease arrangements are fully documented.

Section 7

Audit fees

Audit Fees

Our fee for 2018/19 is set out in the table below and is in-line with the amounts communicated in our Audit Planning Report and Audit Results Reports:

Description	Final Planned Fee 2018/19 £	Planned Fee 2018/19 £
Base Audit Fee – Code Work [note 1]	62,197	62,197
Changes in work required to address professional and regulatory requirements and scope associated with risk [notes 2, 4]	93,346	-
Revised Proposed Scale Fee	**155,543**	**62,197**
Additional specific one-off considerations requiring additional work (Council) [notes 3,4]	261,457	-
Total Audit Fee	**417,000**	**62,197**

We confirm we have not undertaken any non-audit work.

Notes:

1) The base audit fee reflects the amount determined by Public Sector Audit Appointments Limited (PSAA).

2) We wrote to management and the Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice, are all shaping the future of local audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors. In continuing to respond to these factors we are required to seek higher levels of corroborative evidence, including increasing sample sizes and engage with our internal specialists more extensively and on a wider array of matters. Additionally, we need to continue to increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality. To support the increasing regulatory focus, we have to continue to invest in our audit quality infrastructure; for example our compliance costs have doubled over the past five years. A more detailed break down of this amount was provided in our Audit Results Report.

3) Where we have identified significant risks and other areas of audit focus, as summarised in this report, we have undertaken additional procedures to obtain the appropriate levels of evidence to support our opinion. This work is over and above that assumed in the scale fee.

4) We have held discussions with management in respect of our audit fees but have not been able to reach agreement on the additional fee amounts. We will therefore submit our proposals to Public Sector Audit Appointments (PSAA) and ask them to make a determination as to the additional fee to be charged. As this process was not completed prior to the dissolution of the Authority at the end of March 2021, we will provide an update on these discussions to the Audit Committee of the new West Northamptonshire unitary authority.

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