# Northamptonshire County Council

## Audit planning report

Year ended 31 March 2020

28 July 2021

Building a better working world

Private and Confidential

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

28 July 2021

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor for Northamptonshire County Council. Its purpose is to provide the Audit Committee (of the successor body, West Northamptonshire Council) with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. This plan summarises our initial assessment of the key risks driving the development of an effective audit for Northamptonshire County Council for the fiscal year 2019/20, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 28 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

# Contents



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.psaa.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 April 2018)" 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 Committee and management of** Northamptonshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Audit Committee, and management of** Northamptonshire County 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 Committee and management of** Northamptonshire County 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 Overview of our 2019/20 audit strategy

# Overview of our 2019/20 audit strategy

**The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.**

**Audit risks and areas of focus**

| Risk / area of focus | Risk identified | Details |
|---|---|---|
| Risk of fraud in revenue and expenditure recognition | Fraud risk/ Significant 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. As part of our planning we have considered the areas of the accounts which could be subject to a risk of manipulation. The specific risks identified in this area are:<br><br>➢ Incorrect capitalisation of revenue expenditure<br>➢ Incorrect classification of revenue expenditure funded by capital under statute<br>➢ Incorrect application of cut-off |
| Misstatements due to fraud or error | Fraud risk | As identified in 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 would otherwise appear to be operating effectively. |
| Valuation of land and buildings, including investment properties | Significant risk | 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.<br><br>We will specifically focus on assets where a higher degree of estimation uncertainty exists; which for Northamptonshire County Council is those assets valued under one of the following valuation methods:<br><br>➢ Fair Value (such as investment Properties);<br>➢ Depreciated Replacement Cost (Specialised operational assets for which an active market does not exist); and<br>➢ Existing Use Value (Operational assets for which there is an active market to provide comparable evidence)<br><br>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. |

# Overview of our 2019/20 audit strategy

**The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.**

**Audit risks and areas of focus**

| Risk / area of focus | Risk identified | Details |
|---|---|---|
| Going concern assessment and disclosures | Significant risk | CIPFA's Code of Practice on Local Council Accounting in the United Kingdom states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. 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. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.<br><br>To do this, the auditor must review and challenge management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.<br><br>For the Council, there are particular challenges in the going concern assessment, which include:<br><br>➢ The Council's financial position remained challenging through 2019/20 and 2020/21 until its demise on 31 March 2021 when the two new Unitary Councils were formed; and<br>➢ Local government reorganisation - although there is continuation of service, from April 2021, services will be delivered by two Unitary Councils and the Children's Trust in Northamptonshire<br><br>As a result of these factors the going concern assessment and disclosures has been assessed as a significant risk.<br><br>The Council will need to ensure it makes full and appropriate disclosure in its financial statements related to going concern and in particular the above matters.<br><br>The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.<br><br>We will review the Council's going concern assessment and disclosure and consider in particular the impact of the financial position and local government reorganisation. |

# Overview of our 2019/20 audit strategy

**The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.**

**Audit risks and areas of focus**

| Risk / area of focus | Risk identified | Details |
|---|---|---|
| Valuation of pension liability | Higher Inherent risk | The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.<br><br>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on its balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.<br><br>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. |
| Minimum revenue provision | Higher Inherent risk | The minimum revenue provision is the minimum amount that must be set aside by the Council each year to pay for capital expenditure financed through borrowing. The Council changed their approach to MRP effective in 2017/18, but with significant impact in ongoing years. The Council engaged external treasury management specialists, Link Asset Services, to review its provision. This is a complex calculation and any errors in the calculation can impact on the level of Council's useable reserves or may mean that the provision calculated is not considered prudent as required by statutory guidance.<br><br>Although we were able to carry out sufficient work in 2018/19 to conclude MRP was not materially misstated, there remain areas of the Council's calculation that have yet to be resolved by the finance team. |
| Private Finance Initiative | Higher Inherent risk | 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".<br><br>The Council's total future obligation in relation to its PFI schemes as at 31 March 2020 is £1.05 billion. 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. |

# Overview of our 2019/20 audit strategy

## Materiality

**Planning materiality**
**£9.8m**

Materiality has been set at £9.8 million, which represents 1% of the gross expenditure on provision of services presented in the draft 2019/20 financial statements.

**Performance materiality**
**£4.9m**

Performance materiality has been set at £4.9 million, which represents 50% of materiality.

**Audit differences**
**£0.49m**

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, and cash flow statement) greater than £0.49 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

# Overview of our 2019/20 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Northamptonshire County Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to Northamptonshire County Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore, to the extent any of these or any other risks are relevant in the context of the Northamptonshire County Council audit, we will discuss these with management as to the impact on the scale fee.

# Overview of our 2019/20 audit strategy

## Audit scope (continued)

**Designation of the audit as close monitoring**

The Northamptonshire County Council audit has been designated as close monitoring due to the following risk factors

- Two new unitary authorities will be formed to replace the existing eight councils in Northamptonshire on 1 April 2021;
- The Council is subject to high levels of public scrutiny due to its financial position and the transition to a unitary authority model across Northamptonshire;
- The financial position of the Council remains challenging and previously required a £70 million capitalisation direction in order to recover this position;
- MHCLG appointed Commissioners to oversee the financial governance of the Council following a critical Best Value inspection; and
- Following an inspection of children's social services that concluded children's services inadequate, a Chlidren's Commissioner has been appointed with the aim of establishing an independent trust to run the county's children's services alongside the new unitary authorities.

**Audit Response**

- Allocates a Partner as Engagement Lead, with support from an Associate Partner and Senior Manager;
- Allocated a Partner as an engagement quality control reviewer; and
- Identification of specific risk areas and the areas where we need to engage relevant EY specialists to support the engagement team.

**Communication with those charged with governance**

- We will communicate to those charged with governance any significant changes to our audit strategy since our communication about risk factors that led to or contributed to the close monitoring designation, and the reasons for those changes; and
- We will also communicate any new risk factors we identify and consider significant that warrant the attention of those charged with governance.

# 02 Audit risks

# Our response to significant risks

**We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.**

**Risk of fraud in revenue and expenditure recognition – incorrect capitalisation of revenue expenditure***

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts have the following balances in the draft 2019/20 financial statements:

Amounts reported in the draft financial statements are:

Gross Income (cost of services): £551 million

Gross Expenditure (cost of services): £914 million

Capital additions (reported in Note 12): £46.8 million

### 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 will we do?

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect capitalisation of revenue expenditure:

- For significant additions, we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- We will extend our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- As part of our journal testing strategy, we will use our analytics data to identify unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure/capital additions and the credit to expenditure. We will review these journals to ensure they are appropriate.

# Our response to significant risks (continued)

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

## Financial statement impact

Misstatements that occur in relation to the financing of revenue expenditure from capital could affect the comprehensive income and expenditure account and the balance sheet by reducing the level of revenue expenditure in year needing to be funded from revenue sources.

Amounts reported in the draft financial statements are:

REFCUS £16 million

## 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 will we do?

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect classification of expenditure as revenue expenditure funded by capital under statute (REFCUS):

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

# Our response to significant risks

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

## Financial statement impact

Misstatements that occur in relation to the financing of revenue expenditure from capital could affect the comprehensive income and expenditure account and the balance sheet by reducing the level of revenue expenditure in year needing to be funded from revenue sources.

Amounts reported in the draft 2019/20 financial statements are:

Gross Income (cost of services): £551 million

Gross Expenditure (cost of services): £914 million

## 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 2019/20 financial year is recorded in 2020/21.

We have also identified a risk relating to the omission of expenditure accruals and overstatement of year end debtor balances to again 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 will we do?

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

- Extend our cut-off procedures to ensure items of expenditure is recorded in the correct year;
- Test 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;
- Extend our testing of unrecorded liabilities.

# Our response to significant risks (continued)

| | What is the risk? | What will we do? |
|---|---|---|
| **Misstatements due to fraud or error** | The financial statements as a whole are not free of material misstatements whether caused by fraud or error.<br><br>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. | We will perform mandatory procedures to address the general risk of fraud, regardless of specifically identified fraud risks. These include:<br>➢ Identifying fraud risks during the planning stages.<br>➢ Inquiry of management about risks of fraud and the controls put in place to address those risks.<br>➢ Understanding the oversight given by those charged with governance of management's processes over fraud.<br>➢ Consideration of the effectiveness of management's controls designed to address the risk of fraud.<br>➢ Determining an appropriate strategy to address those identified risks of fraud.<br>➢ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;<br>➢ Assessing accounting estimates for evidence of management bias; and<br>➢ Evaluating the business rationale for any significant unusual transactions. |

# Our response to significant risks (continued)

**Significant risk – valuation of land and buildings, including investment properties**

## Financial statement impact

Misstatements that occur in relation to the valuation of land and buildings and investment properties could affect the balance sheet by materially misstating the valuation of these assets. They may also impact on the income and expenditure account through the impact on depreciation charges.

Amounts reported in the draft financial statements are:

- Land and buildings (per Note 12): £429 million
- Investment properties: £51 million
- Depreciation of land and buildings: £19 million

## What is the risk?

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 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.

# Our response to significant risks (continued)

**Significant risk – valuation of land and buildings, including investment properties (continued)**

**What will we do?**

In terms of the overall response, we will:

- evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- Ensure the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted;
- adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes.

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of property, including investment properties:

- Consider 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 test key asset information used by the valuers in performing their valuation;
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Test valuation assumptions used by the valuer for a sample of assets;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

We will engage EY valuation specialists to assist the audit team to review a sample of assets valuations.

# Our response to significant risks (continued)

| What is the risk? | What will we do? |
|---|---|
| **Going concern disclosures: Significant risk**<br><br>Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.<br><br>There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.<br><br>CIPFA's Code of Practice on Local Council Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.<br><br>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. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.<br><br>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.<br><br>The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period. | In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.<br><br>We will review the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether they include necessary disclosures regarding any material uncertainties that do exist.<br><br>We will consider whether these disclosures also include 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).<br><br>Our audit procedures to review these will include consideration of:<br>➢ Current and developing environment:<br>➢ Liquidity (operational and funding);<br>➢ Mitigating factors;<br>➢ Management information and forecasting;<br>➢ Sensitivities and stress testing;<br>➢ Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.; and<br>➢ Continuation of services post local government reorganisation<br><br>In undertaking this work, we will need to take into account that the Council's financial position for 2019/20 was challenging, and that as the Council ceased to exist on 31 March 2021, the going concern assessment will include the service continuity provided by the two new Unitary Councils. We will review the Council's going concern assessment and disclosure for 2019/20 in line with auditing requirements and consider 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. |

# Other areas of audit focus

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Valuation of net pension liability**<br><br>The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.<br><br>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.<br><br>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.<br><br>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. | We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of the pension net liability:<br><br>➢ Liaise with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Northamptonshire County Council;<br>➢ Consider the impact of any movement in pension fund asset values between the date of the IAS19 report and 31 March 2020, taking into account assurance requested from the pension fund auditor on these movements;<br>➢ Assess the work of the Pension Fund actuary 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;<br>➢ Engage with the Council, and their actuary, to understand any impact of the McCloud judgement and GMP rulings on the IAS19 liability; and<br>➢ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.<br>We will engage EY pension specialists to assist the audit team. |

# Other areas of audit focus

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Minimum revenue provision (MRP)**<br><br>The MRP represents the minimum amount charged to the Council's revenue account each year in order to meet the costs of repaying amounts borrowed. This ensures that the Council makes a satisfactory annual provision for loan repayments.<br><br>The Council reviewed their MRP policy with effect from 2017/18 and identified that MRP had been over-provided, based on a retrospective application of the Council's new MRP policy. The Council planned to release this amount over subsequent years.<br><br>We reported to the Council in our 2018/19 Audit Results Report that we gained sufficient assurance for the release of the over provision used. There remains an inherent risk concerning the remaining value of calculated over provision to be released. | Our approach will focus on:<br>➢ Assessing the conclusions drawn on the work and assumptions used in the calculation by re-modelling the calculation; and<br>➢ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to MRP. |
| **Private Finance Initiative**<br><br>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".<br><br>The Council's total future obligation in relation to its PFI schemes as at 31 March 2020 is £1.05 billion. 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. | We will:<br>➢ Confirm 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;<br>➢ Identify those inputs to the model which are estimates and undertake audit procedures to gain assurance over the reasonableness of these estimates;<br>➢ Engage EY's internal specialists to review the PFI model to ensure the inputs and accounting are in line with our expectations; and<br>➢ Confirm that year end journal entries in relation to the PFI schemes have been processed accurately. |

# Auditing a predecessor body

| Impact and Response |
| --- |
| Preparing the accounts and supporting the audit for a predecessor body puts pressure on the officers of West Northamptonshire and North Northamptonshire councils, given their existing responsibilities within the new organisations. Delivering an audit "out of cycle" puts pressure on our resourcing model to ensure that we retain continuity of staff and knowledge through this audit and into the final audit year of 2020/21. As both teams are working remotely, we are focused on making best use of technology to ensure we have secure data transfer methods in place and on effective working and communications arrangements between the two teams to ensure that the audit goes as smoothly and timely as possible.<br><br>In planning, performing and reporting the audit of Northamptonshire County Council to West Northamptonshire Council Audit Committee, we are aware that many members may have had no role with the predecessor organisation. We are working with officers to ensure that the role of the audit committee in reviewing and approving the accounts of Northamptonshire County Council is clearly set out, and that the information provided is in a form that will allow members to gain sufficient assurance to be able to undertake that role appropriately. |

# 03 Value for Money Risks

# Value for Money

## Background

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

For 2019/20 this is based on the overall evaluation criterion:

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

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.

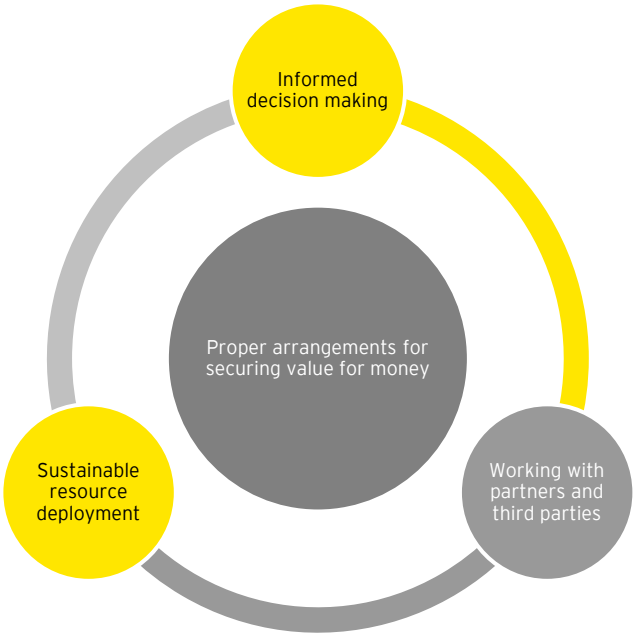
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public".

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. For 2019/20 this will include consideration of the steps taken by the Authority to consider the impact of both Brexit and the coronavirus on its future service provision, medium-term financing and investment values.

Our risk assessment will therefore consider both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. Our risk assessment is substantially complete and we have identified the areas that are likely to present a significant risk and which we therefore need to undertake more work on as part of our risk assessment. These are noted on the following pages. We will continue to revisit and update our risk assessment throughout the audit.



# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Financial resilience:**<br>The Council has a history of serious financial difficulties with inadequate budgeting and monitoring processes, evidenced by adverse VFM conclusions in 2017/18 and 2018/19.<br><br>Some progress was noted up to the end of 2018/19 in relation to the Council's ability to recover the financial position based on the Council's sustained effort in identifying additional savings and in-year mitigations, as well as having tighter monitoring of expenditure. Monthly updates and discussions regarding financial performance are evidenced in the Cabinet Minutes through the Monthly Revenue Finance Reports with an improved level of detail to support informed decision making.<br><br>However, more action and progress was required to achieve a sustainable financial position. Even though the Council delivered an underspent position for 2018/19, this was heavily reliant on a Capital Dispensation obtained, the S114 Notice being in place and keeping spending to a minimum required level, and the one-off measures and non-recurrent transactions identified in the year. The savings identified in the Stabilisation Plan were only partially achieved (less than 50%), which suggests that either the planned savings were overly ambitious, or the Council failed to implement the necessary actions to achieve them. | Take informed decisions / Deploy resources in a sustainable manner | Our approach will focus on reviewing the Council's arrangements during 2019/20 to secure financial resilience.<br><br>As part of this we will consider whether:<br><br>➢ Management actively monitored performance against the budget during the year and, if necessary, took reasonable actions to address divergences;<br>➢ The Council used reasonable assumptions for the preparation of the 2020/21 MTFP;<br>➢ The level of savings assumed within the 2020/21 MTFP were realistic considering the Council's past performance in achieving planned savings;<br>➢ The available reserves and balances were adequate compared to the Council's overall budget requirements and arrangements were established to ensure these were used in a sustainable manner to address unexpected/one-off events. |

# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Children's Services:**<br>Inspections of Children's Services undertaken by Ofsted in 2016 and 2018 assessed the service as 'requires improvement' in all areas.<br><br>The Council took steps, such as the creation of Northamptonshire Children's Improvement Plan, to address the concerns raised by Ofsted. The target dates for most of the actions were predominately in FY 2019/20. | Take informed decisions | Our approach will focus on reviewing the Council's progress to address the weaknesses in Children's Services during 2019/20.<br><br>As part of this we will consider:<br><br>➢ Whether or not the Council made progress against the Northamptonshire Children's Improvement Plan, meeting targets set for 2019/20; and<br>➢ 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. |
| **CQC local system review:**<br>A local system review for Northamptonshire was carried out by the Care Quality Commission in April 2018, reporting in June 2018, to understand how people move through the health and social care system in Northamptonshire. The report highlighted weaknesses and challenges in the system and included suggested areas of focus for the system to secure improvement.<br><br>The Council implemented a series of changes in light of the CQC Report during 2018/19. However, by June 2019, five out of 23 actions remained outstanding. | Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties | Our approach will focus on reviewing the arrangements at the Council during 2019/20.<br><br>As part of this we will consider whether:<br><br>➢ The Council identified clear actions directly linked to CQC recommendations and progress was monitored accordingly; and<br>➢ The five outstanding actions had been addressed by the end of 2019/20. |

# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Risk management:**<br>The Council had a history of weaknesses for its risk management framework as evidenced by adverse VFM conclusions in 2017/18 and 2018/19.<br>Our work in 2018/19 identified, whilst the risk registers were maintained on a regular basis and there is evidence they were updated and reviewed with regularity by the Audit Committee, the quality of the Corporate Risk Register was insufficient. Failure to properly identify, address and monitor risks will limit the Council's ability to make informed decisions and deploy resources sustainably. | Take informed decisions / Deploy resources in a sustainable manner | Our approach will focus on reviewing the arrangements at the Council during 2019/20.<br>As part of this we will consider:<br>➢ Whether or not the risk registers were effectively maintained by the Council, and reviewed and updated on a regular basis; and<br>➢ Identifying and obtaining evidence of how training is provided to staff on the risk management framework. |

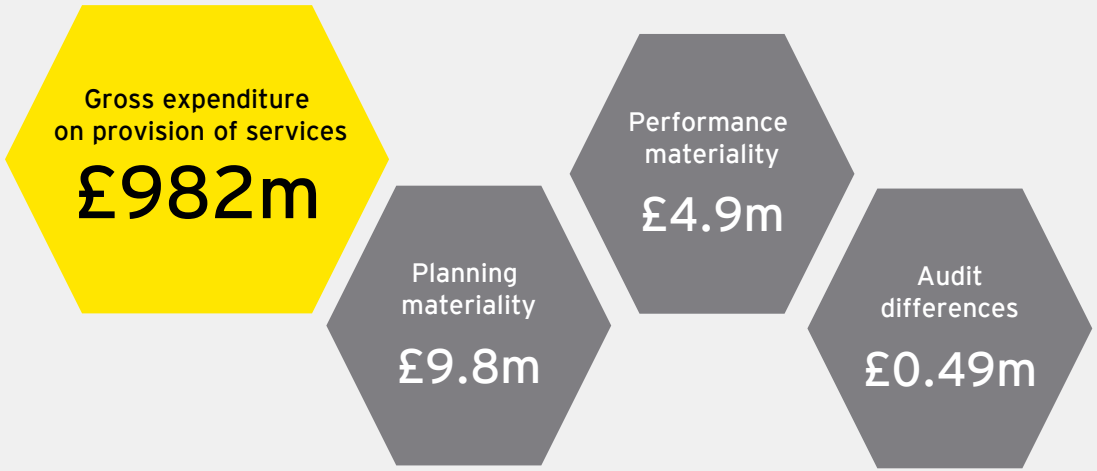
# 04 Audit materiality

# Materiality

## Materiality

For planning purposes, materiality for 2019/20 has been set at £9.8 million. This represents 1% of the Council's gross expenditure on provision of services reported in the draft financial statements. In setting our overall materiality we have considered the level of public interest in the Council's accounts and other factors including the Council's current financial position and the our risk assessment of the Council obtained during our first year as the Council's auditors in 2018/19. As a result, we have applied a level of 1% of the gross expenditure on provision of services. This represents an increase in the materiality applied in 2018/19.

Materiality will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.




We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £4.9 million which represents 50% of planning materiality. For initial audits, we typically set performance materiality at 50%. As a result of the level of adjustments identified in 2018/19 we will not be increasing this threshold for 2019/20 and have therefore set performance materiality at 50%.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

**Specific materiality** – We will set a lower level of materiality for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

# 05 Scope of our audit

# Our Audit Process and Strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

**1. Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

**Procedures required by standards**

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

**Procedures required by the Code**

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

**2. Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

# Our Audit Process and Strategy (continued)

**Audit Process Overview**

**Our audit involves:**

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

**Analytics:**

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

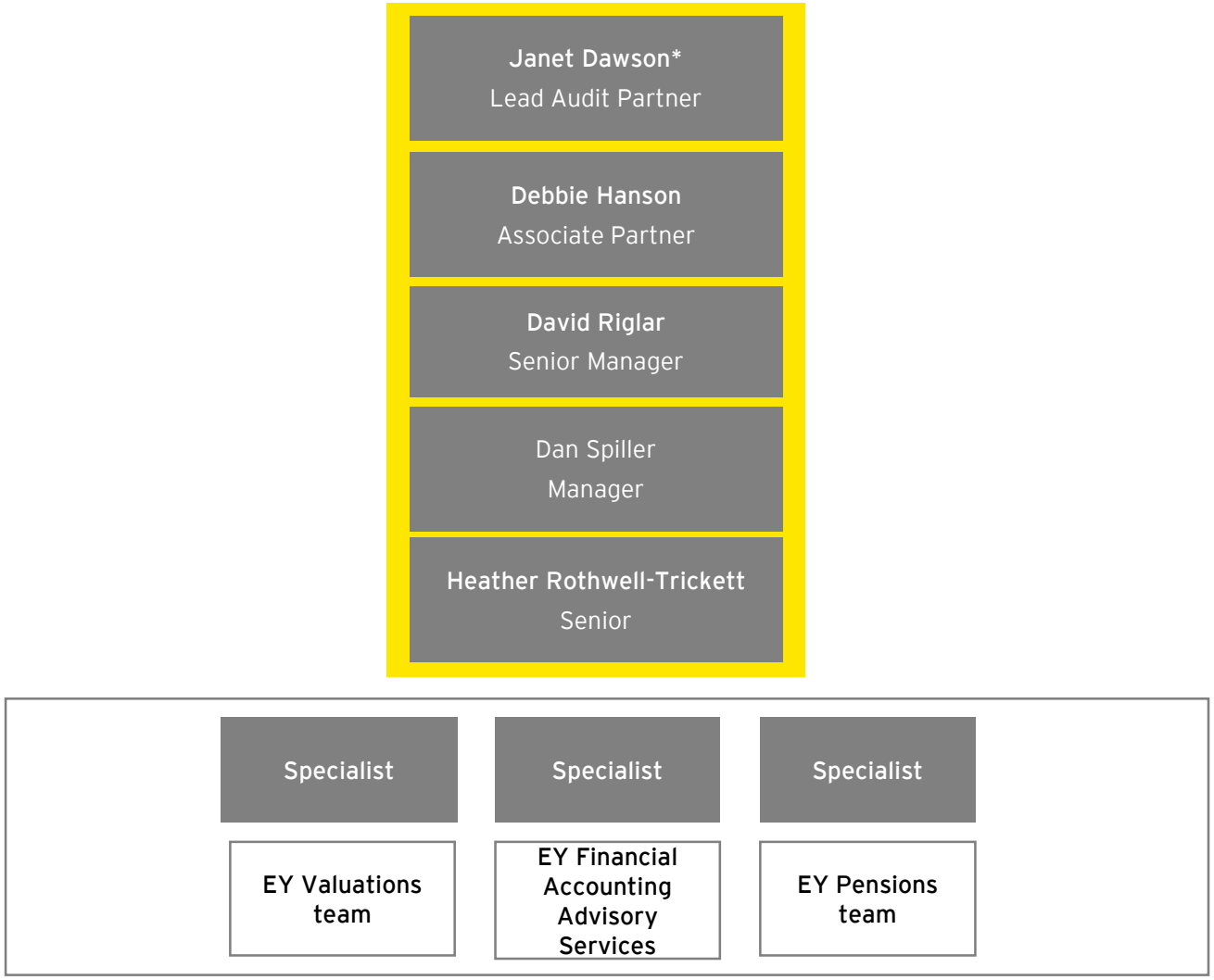
We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee .

**Internal audit:**
We will liaise with Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

# 06 Audit team

# Audit team

**Audit team structure:**




* Key Audit Partner

# Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

| Area | Specialists |
|---|---|
| Valuation of Land and Buildings | EY Valuations Team, Northamptonshire County Council external valuers |
| Pensions disclosure | EY Actuaries / PwC/ Council's actuaries (Hymans Robertson) |
| PFI | EY Internal PFI Specialist |
| MRP calculation | EY internal MRP specialist |
| Fair Value Investment Measurement | Link |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Trust's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

# 07 Audit timeline

# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

| Audit phase | Timetable | Audit Committee timetable | Deliverables |
|---|---|---|---|
| Planning:<br>Risk assessment and setting of scopes. | April | | |
| Walkthrough of key systems and processes | May | | |
| Year end audit<br>Audit testing | June | | |
| Year end audit<br>Audit testing | July | Audit Committee | Audit Planning Report |
| Year end audit<br>Audit Completion procedures | August | | |
| Year end audit<br>Audit Completion procedures | September | Audit Committee | Audit Results Report |

# 08 Independence

# Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|---|---|
| **Planning stage** | **Final stage** |
| ➢ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;<br>➢ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;<br>➢ The overall assessment of threats and safeguards;<br>➢ Information about the general policies and process within EY to maintain objectivity and independence.<br>➢ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard | ➢ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;<br>➢ Details of non-audit services provided and the fees charged in relation thereto;<br>➢ Written confirmation that the firm and each covered person is independent and, if applicable, that any external experts used have confirmed their independence to us;<br>➢ Written confirmation that all covered persons are independent;<br>➢ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;<br>➢ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and<br>➢ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, your audit engagement partner and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is 0%. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

## Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

## Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of Northamptonshire County Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

# New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

## Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

## Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

# Other communications

## EY Transparency Report 2020

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 period ended 3 July 2020 (published November 2020):

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

# 09 Appendices

# Appendix A

## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

| | 2019/20 | 2018/19 |
|---|---|---|
| | £ | £ |
| Scale Fee – Code work | 105,998 (note 1) | 105,998 |
| Scale Fee Variation submitted to PSAA | TBC | 692,126 |
| Other non-audit services | 0 | 0 |
| Total fees | TBC | 798,124 |

*All fees exclude VAT*

The fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.
Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

For 2018/19 Code work we agreed with PSAA that we will agree an amended scale fee to reflect the level of additional risk in the audit. We have estimated 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 have submitted the fee in the table to PSAA for their approval; this was done following agreement with the Council section 151 officer and commissioners.

For 2019/20, we will follow the same process. The indications, from our preliminary procedures and the start of our fieldwork, that there will be substantially less time required to complete the audit that for the prior period. We still expect to be required to submit a variation and will keep officers and the committee up to date with how our time analysis progresses.

We have set out on the next page some of the key risks which we have identified at planning stage will result in additional work and therefore an increase in the fee. Additional issues may be identified during the course of the audit which will impact on the fee.

# Fees (continued)

The issues we have identified at the planning stage which will impact on the fee include:

- Due to the high volume of errors and issues encountered in 2018/19, our Tolerable Error threshold, the level that directs our sample sizes, will remain at 50% of Planning Materiality. This is consistent with the prior year, but for many audits we retain the option to increase this threshold and, as such, reduce our sample sizes.
- The need for the appointment of a Partner as the Engagement Lead on the audit as well as an Associate Partner and Senior Manager. This is to reflect the risk profile and the complexity of the issues expected on the audit as well as the expected volume of work and senior management engagement.
- The need for the appointment of a Partner as Engagement Quality Reviewer to reflect the risk profile.
- The need for additional internal consultation in relation to higher risk areas of the audit such going concern assessment and disclosures and the value for money conclusion.
- Additional work required by the engagement team to address the significant and inherent risks identified in this Plan:
  - Valuation of land and buildings and investment properties
  - Risk of fraud in revenue and expenditure recognition
    - Inappropriate capitalisation of revenue expenditure
    - Inappropriate classification of expenditure as revenue expenditure funded by capital under statute
    - Incorrect application of cut-off
- Additional work, including the use of EY specialists to review the following areas:
  - Valuation of land and buildings and investment properties
  - Valuation of the net pension liability
  - MRP policy
- Additional work to address the value for money risks identified.
- Additional work to address the impact of Covid-19 on the disclosures in the Council's accounts related to going concern and events after the balance sheet date. In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

# Appendix B

## Required communications with the Audit Committee

**We have detailed the communications that we must provide to the** Audit Committee**.**

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Terms of engagement | Confirmation by the Audit 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 | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report |
| Significant findings from the audit | ➢ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>➢ Significant difficulties, if any, encountered during the audit<br>➢ Significant matters, if any, arising from the audit that were discussed with management<br>➢ Written representations that we are seeking<br>➢ Expected modifications to the audit report<br>➢ Other matters if any, significant to the oversight of the financial reporting process | Audit results report |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>➢ Whether the events or conditions constitute a material uncertainty<br>➢ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>➢ The adequacy of related disclosures in the financial statements | Audit results report |
| Misstatements | ➢ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>➢ The effect of uncorrected misstatements related to prior periods<br>➢ A request that any uncorrected misstatement be corrected<br>➢ Corrected misstatements that are significant<br>➢ Material misstatements corrected by management | Audit results report |

# Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Fraud | ➢ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>➢ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>➢ A discussion of any other matters related to fraud | Audit results report |
| Related parties | ➢ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>➢ Non-disclosure by management<br>➢ Inappropriate authorisation and approval of transactions<br>➢ Disagreement over disclosures<br>➢ Non-compliance with laws and regulations<br>➢ Difficulty in identifying the party that ultimately controls the entity | Audit results report |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>➢ The principal threats<br>➢ Safeguards adopted and their effectiveness<br>➢ An overall assessment of threats and safeguards<br>➢ Information about the general policies and process within the firm to maintain objectivity and independence | Audit planning report<br><br>Audit results report |
| External confirmations | ➢ Management's refusal for us to request confirmations<br>➢ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report |

# Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Consideration of laws and regulations | ➢ 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<br>➢ Enquiry of the Audit 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 Committee may be aware of | Audit results report |
| Internal controls | ➢ Significant deficiencies in internal controls identified during the audit | Audit results report |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report |
| Auditors report | ➢ Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | ➢ Breakdown of fee information when the audit plan is agreed<br>➢ Breakdown of fee information at the completion of the audit<br>➢ Any non-audit work | Audit planning report<br><br>Audit results report |
| Certification work | Summary of certification work undertaken | Certification report |

# Additional audit information

| Other required procedures during the course of the audit | |
|---|---|
| In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit. | |
| **Our responsibilities required by auditing standards** | ➢ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.<br>➢ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Northamptonshire County Council's internal control.<br>➢ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.<br>➢ Concluding on the appropriateness of management's use of the going concern basis of accounting.<br>➢ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.<br>➢ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Northamptonshire County Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and<br>➢ Maintaining auditor independence. |

# Additional audit information (continued)

## Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on Northamptonshire County Council's financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.