



**Northampton Borough
Council**

Audit Results Report

Year ended 31 March 2020

September 2021

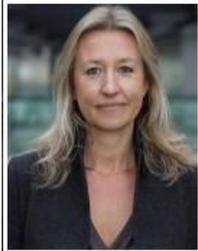


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September 2021



West Northamptonshire Council
One Angel Square
Angel Street
Northampton
NN1 1ED

Dear Audit and Governance Committee Members

We are pleased to provide our provisional audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Northampton Borough Council for 2019/20.

We have completed a significant proportion of our audit of Northampton Borough Council ('the Authority or Council') for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3. We also intend to include an Emphasis of Matter paragraph within our auditor's report highlighting disclosures within the financial statements of the demise of the Authority on 31 March 2021. In addition, we are reporting matters about the arrangements that were in place at Northampton Borough Council during 2019/20 to secure economy, efficiency and effectiveness in the use of resources.

This report is intended solely for the use of the Audit and Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 29 September 2021.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Contents



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.psa.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 Audit Results Report is prepared in the context of the Statement of responsibilities. 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.



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 28 July 2021 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan.

Materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.2m, with performance materiality, at 50% of overall materiality, of £1.1m and a threshold for reporting misstatements, at 5% of overall materiality, of £0.11m. Our materiality threshold was set at 1% of the Authority's gross expenditure on provision of services. We have reassessed these thresholds during the course of our audit and are content they remain appropriate.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems due to the need to complete the audit remotely as a consequence of the Covid-19 pandemic. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Status of the audit

We have completed a significant proportion of our audit of Northampton Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the outstanding items set out in Appendix D, which includes the resolution of a potential lack of assurance from the pension fund auditor affecting the pension liability calculation, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. We intend to include an Emphasis of Matter paragraph within our auditor's report highlighting disclosures within the financial statements of the demise of the Authority on 31 March 2021. However until work is complete, further amendments may arise. We will provide a verbal update on these matters at the Committee meeting.

We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

We identified 5 unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation. The aggregated impact of 4 of these unadjusted audit differences would be to increase the deficit on the provision of services by £76k. We still waiting on further information from management to quantify the fifth misstatement, and management may choose to adjust for it once the size is known.

We agree with management's assessment that the impact of the four quantified misstatements is not material.

We have also identified audit differences with an aggregated impact of increasing the deficit on provision of services by £1,367k, and other audit differences not impacting the deficit on provision of services, which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Northampton Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue;
- ▶ There are no other significant issues to be considered.

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

Control observations

During the audit we identified a number of observations in relation to management's financial processes and controls. We identified findings in relation to:

- ▶ The provision of information to external valuers of non-current assets;
- ▶ The accuracy of the Council's leases database;

Given that the Authority ceased to exist on 31 March 2021, we have not made recommendations as to how management should seek to address our observations. We do, however, bring these matters to your attention for information as the successor organisation for action where appropriate.

Further details of our observations are set out in Section 7.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the implementation of the Governance Action Plan as a significant risk. Our response to this risk is set out in detail in Section 5.

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

- ▶ We reported as part of our 2018/19 audit that management adopted a less formal approach to addressing the remaining actions of the Governance Action Plan, and formally closed the plan in September 2018 with several actions either outstanding or implemented in a manner which we were unable to conclude as embedded within the organisation. As a result, we were unable to conclude that the necessary improvements in governance and internal controls were fully embedded throughout the year ended 31 March 2019 and we issued a qualified VFM opinion. The Authority made only limited additional progress on these actions during 2019/20, therefore we remain 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 will issue an adverse value for money opinion again for 2019/20.

Except for the implementation of the Governance Action Plan, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

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

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

The specific fraud risks identified relate to the inappropriate capitalisation of expenditure when considering revenue and expenditure recognition. Further details of our response to this risk are set out on the next page.

What did we do?

- ▶ We identified fraud risks during the planning stage of our audit;
- ▶ We enquired of management and those charged with governance about risks of fraud and the controls put in place to address those risks, and considered the effectiveness of those controls;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including:
 - ▶ testing of journal entries and other adjustments in the preparation of the financial statements;
 - ▶ assessing accounting estimates for evidence of management bias; and
 - ▶ evaluating the business rationale for significant unusual transactions.

What are our conclusions?

We note that a material level of misstatement was identified within the valuation of non-current assets, further details of which are provided on the following pages. We have considered the causes of these misstatements, along with the fact that misstatements were identified which both overstated and understated the valuation of assets, and are content that there was not a consistent management bias within these valuations towards either overstatement or understatement.

We have also challenged management on the evidence base for a significant increase in the NNDR appeals provision, where management could evidence an increase in the number of challenges raised during 2020-21 by ratepayers but not the extent to which they might ultimately result in successful appeals. Following our challenge, management have accepted there is not a sufficiently robust evidence base for the increase and reduced the NNDR appeals provision by £8.0m. The Council's share of this reduction was £3.2m, with the remainder attributable to other preceptors.

Our testing has also not identified any other misstatements arising from fraud or error, or other matters relating to this risk, to bring to your attention.

Note that details of misstatements identified during the course of our audit by other audit procedures are detailed in Section 4.



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition – Inappropriate capitalisation of expenditure

What is the risk?

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

What judgements are we focused on?

For the Council, we consider this risk most likely to manifest through incorrect capitalisation of amounts which should be charged to the Comprehensive Income and Expenditure Statement (CIES) as expenditure.

What did we do?

- ▶ We tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions;
- ▶ We tested a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it meets the criteria set down in governing regulations; and
- ▶ We tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards.

What are our conclusions?

Our testing of capital additions identified that storage costs for items relocated during renovation of the Northampton Museum and Art Gallery had been incorrectly capitalised as part of the museum asset. We have extrapolated this finding to quantify a most likely overstatement of capital additions of £235k.

Our testing has not identified any other misstatements arising from inappropriate capitalisation of expenditure, or other matters relating to this risk to bring to your attention.

We are therefore able to conclude that the financial statements are not materially misstated as a result of inappropriate capitalisation of expenditure.



Areas of Audit Focus

Significant risk

Valuation of land and buildings, other than council dwellings

What is the risk?

Land and buildings are significant assets on the Council's Balance Sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.

For 2019/20, we exclude council dwellings from the scope of our risk as our work over council dwellings in the prior year found no issues and the Council has not changed the external valuer for council dwellings from the prior year.

What judgements are we focused on?

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 did we do?

- ▶ 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 used our own EY Real Estate valuation specialists to review a sample of valuations identified as higher risk;
- ▶ We sample tested key asset information used by the valuers in performing their valuation (e.g. 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 5 year rolling programme as required by the Code for property, plant and equipment, and annually for investment property. We will also considered if there are any specific changes to assets that have occurred and whether these were communicated to the valuer;
- ▶ We reviewed assets that were not subject to valuation in 2019/20 to confirm the remaining asset base is not materially misstated;
- ▶ We tested the accounting entries relating to the valuation of non-current assets to ensure they had been correctly processed in the financial statements; and
- ▶ We reviewed the financial statement disclosures to ensure that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty.

What are our conclusions?

As of the date of this report, we are still working with management to obtain the explanations and supporting evidence necessary to conclude our testing of the valuation of a number of land and building assets. We have however identified several misstatements from the testing completed to date, including:

- ▶ Overstatement of the Council's portfolio of garages by £1,443k due to the size of the garage portfolio differing from that assumed by the valuer;
- ▶ Misstatement of several of the Council's investment properties due to the valuer's assumptions about current tenancy agreements differing from the terms of the actual agreements. We have requested further evidence from management to enable quantification of the resulting misstatements; and
- ▶ Misstatement of the Council's assets valued at depreciated replacement cost (DRC) and existing use value (EUV) due to incorrect information about the assets being used by the valuer. We have determined the net impact to be an overstatement of £522k, however the gross error was £2,988k.

We will provide a verbal update on our testing of remaining assets at the Committee meeting.



Areas of Audit Focus

Higher inherent risk

Pension liability valuation

What is the risk?

Accounting for the Authority's defined benefit pension scheme liabilities involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management specialists and the assumptions underlying fair value estimates.

What did we do?

- ▶ We liaised with the audit team of the Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Northamptonshire Borough Council. Note that the audit of the Pension Fund is also performed by EY;
- ▶ We assessed the work of the Pension Fund actuary (Hymans Robertson), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and review of this work by the EY actuarial team; and
- ▶ We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to defined-benefit pensions.

What are our conclusions?

The Pension Fund auditor has been unable to provide assurance over the number of Council members in the Pension Fund due to limitations in the reporting available from the Pension Fund's administration systems.

Management have been able to evidence the number of active members using payroll records, however we note this is c. 10% higher than the number used by the Council's actuary. We have asked management to demonstrate to us that this would not have a material impact on the pension liability.

We are still working with management and the Pension Fund auditor to obtain support for the number of deferred and pensioner members. If we are unable to obtain this support we will not be able to conclude on whether the pension liability is fairly stated resulting in a limitation of scope of our audit opinion.

In addition, in investigating the above we have identified that the Council's membership data at the time of the 2016 triennial scheme valuation, which was subsequently used to inform the valuation of scheme liabilities in the 2016-17, 2017-18 and 2018-19 accounts, incorrectly included individuals employed by Northamptonshire Partnership Homes. The prior year net pension liabilities were overstated by £16.6m as a result, therefore management have agreed to restate the prior period comparatives to correct this error in the prior year's disclosures.

The net assets of the Pension Fund reported to us by the Pension Fund auditor differed to the net assets assumed by the Council's actuary due to timing differences on the reporting of returns for the final quarter of 2019/20. In addition, the Pension Fund auditor reported small misstatements within the Pension Fund's accounting records shared with the actuary. We have quantified the aggregate impact on the Council's net liability as an understatement of £157k.

We have no other matters to report in respect of this risk.



03 Audit Report



Audit report

We include below a copy of the auditor's report we propose to issue.

Given our intention to qualify our value for money opinion, there are additional internal consultation processes in respect of our audit opinion which we need to conclude. Any changes to our audit report as a result of this consultation will be communicated to the Audit and Governance Committee.

Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST NORTHAMPTONSHIRE COUNCIL

Opinion

We have audited the financial statements of Northampton Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement,
- ▶ Related notes 1 to 33 to the Authority financial statements and notes 1 to 14 to the Group financial statements,
- ▶ Housing Revenue Account Income and Expenditure, the Movement on the Housing Revenue Account Statement and the related notes 1 to 6, and
- ▶ Collection Fund Income and Expenditure Account and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Northampton Borough Council and the Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

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

Emphasis of matter - Local government reorganisation

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



Audit report

Audit report

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Executive Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Executive Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

In September 2013, the Authority advanced a loan to Northampton Town Football Club of £10.25m to carry out works to improve stadium facilities and develop a hotel. The money was passed to a third-party developer and concerns about the recoverability of the loan resulted in the full loan balance being written-off during the year to 31 March 2016. In December 2016, the Authority's internal auditor issued a report into the circumstances of the loan which raised a number of concerns over failings in the systems of governance and internal control.

In response, the Authority produced a Governance Action Plan containing a number of actions to address the governance and internal control issues raised. During the year to 31 March 2019, management adopted a less formal approach to addressing the remaining actions and formally closed the Governance Action Plan in September 2018 with several actions either outstanding or implemented in a manner which we are unable to conclude as embedded within the organisation.

The Authority has been able to evidence limited further progress against the outstanding actions from the Governance Action Plan during the year to 31 March 2020. These relate to the Council's processes for approving significant new transactions and are therefore relevant to the Council's deployment of significant resources. This issue is evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance.

We are therefore unable to conclude that the necessary improvements in governance and internal controls were fully embedded throughout the year ended 31 March 2020 and 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 during this period.



Audit report

Audit report

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are not satisfied that, in all significant respects, Northampton Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Executive Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 14, the Executive Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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



Audit report

Audit report

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Northampton Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

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

Use of our report

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

Janet Dawson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
[Date]



04 Audit Differences





Audit Differences

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

Summary of unadjusted differences

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

Misstatements impacting income and expenditure

- ▶ Our testing of the Council’s investment properties has identified misstatement of several properties due to the valuer’s assumptions about current tenancy agreements differing from the terms of the actual agreements. We are waiting for further information from management to allow us to quantify this misstatement.
- ▶ Our testing of capital additions identified incorrect capitalisation of storage costs for items relocated during the refurbishment of the Northampton Museum and Art Gallery. Our extrapolation of this matter estimates a most likely understatement of expenditure and overstatement of PPE of £235k.
- ▶ Our testing of receipts in advance balances identified an amount of £12k for which management were unable to provide support for continued recognition as the balance dated back to at least 2012. In the absence of evidence of continued future use, we believe this balance should be released to income. We have extrapolated this finding over other balances brought-forward from the prior year and determined an extrapolated overstatement of receipts in advance and understatement of income of £159k.

Misstatements impacting other comprehensive income and expenditure

- ▶ Our testing of assets valued at depreciated replacement cost (DRC) and existing use value (EUV) identified misstatements due to incorrect information about the assets being used by the valuer. We have quantified a net overstatement of assets of £522k. Whether the misstatement of individual assets impacts income and expenditure or other comprehensive income and expenditure depends upon the extent of any previous changes in the valuation of the asset, however we expect the majority of impact to be through other comprehensive income and expenditure. We have requested analysis from management to determine the exact split.
- ▶ Our testing of the Council’s defined-benefit pension liabilities found the valuation of the Council’s share of the Pension Fund’s assets to be overstated, resulting in an understatement of the net pension liability and overstatement of the actuarial gain for the year of £157k. We do however note there is ongoing work to obtain comfort over the membership numbers used in valuing the pension liabilities.



Audit Differences

Summary of adjusted differences

We highlight the following misstatements of the Authority's financial statements which management have advised they intend to correct. We have not yet had an opportunity to review the amended statements therefore we will need to ensure that amendments have been processed as expected prior to concluding our audit:

Misstatements impacting income and expenditure

- ▶ Our testing of debtors identified misrecording of non-domestic rate balances resulting in an overstatement of non-domestic rate income of £1,367k, overstatement of debtors of £465k and understatement of creditors of £902k. As this relates to non-domestic rate income, a corresponding adjustment has also been made to transfer the £1,367k impact on reserves from the General Fund to Earmarked Reserves.

Misstatements impacting other comprehensive income and expenditure (continued)

- ▶ Our testing of housing land and buildings identified an overstatement of the Council's garage portfolio due to the size of the portfolio differing from the valuer's assumptions. The impact was to overstate PPE and understate the loss on revaluation by £1,443k.

Classification misstatements within income and expenditure

- ▶ Our testing of financing and investment income identified misclassification of depreciation costs which should have been classified as expenditure within the cost of services. The impact is an understatement of the cost of services of £144k but there is no impact on the overall deficit on the provision of services for the year.

Classification misstatements within the balance sheet and supporting notes

- ▶ Our testing of debtor and creditor balances identified overstatement of both debtors and creditors by £13,984k due to incorrect inclusion within both balances of £22,611k received from the Department for Work and Pensions (DWP) during the year, non-removal of the opening balance 'reversals' of £9,175k balances with Northampton Partnership Homes identified as incorrect in the prior year and adjusted for in the final 2018/19 statements and other grossing-up errors totalling £548k;
- ▶ Our testing of receipts in advance balances identified an amount of £565k which the Council received in 2020-21 and should not therefore be held as a receipt in advance at 31 March 2020. The same balance was also held within debtors, which is incorrect as the corresponding income has not been recognised, therefore both debtors and creditors were overstated by £565k.
- ▶ Our testing of long term debtors identified an error in the split of balances owed under long-term agreements between short term debtors and long term debtors, resulting in an understatement of long-term debtors and overstatement of short-term debtors of £406k;
- ▶ Our testing of debtor balances also identified amounts received before year-end in respect of goods and services to be provided in 2020/21 incorrectly recorded as a reduction to debtor balances rather than as receipts in advance creditor balances, resulting in an understatement of both debtors and creditors of £133k.



Audit Differences

Summary of adjusted differences (continued)

Misstatements impacting the Group statements only

- ▶ Our testing of the consolidation of Northamptonshire Partnership Homes (NPH) identified that management had not allowed for the fact NPH has adopted the new accounting standard for leases (IFRS 16) whereas the Council has not yet adopted this standard. Adjustments are required to remove IFRS 16 balances from the group statements and replace them with balances determined under the old leases standard (IAS 17) applied by the Council. As a result, group assets were overstated by £552k, group liabilities were overstated by £588k and group equity was understated by £36k. The impact on in-year income and expenditure was minimal.
- ▶ Our testing of debtor and creditor balances within NPH identified a miscoding of Construction Industry Tax balances resulting in an overstatement of both debtors and creditors by £866k.

Misstatement impacting the prior year

- ▶ We have identified that the pension membership data used for the 2016 triennial valuation of the Council's pension liabilities incorrectly included individuals employed by NPH as well as those employed by the Council. This resulted in an overstatement of the Council's net pension liabilities at 31 March 2019 of £16,554k. The Group position was also misstated as this balance was also separately consolidated from NPH, resulting in double-counting of the pension liability at group level. The membership data was refreshed for the purposes of the 2019-20 valuation and correctly excluded NPH employees.



Audit Differences

Comments on Disclosures

During the course of the audit we have identified a number of disclosure errors and made a number of recommendations to management to improve the presentation of financial statements disclosures. The following are the most significant which we consider warrant the attention of the Audit and Governance Committee:

- ▶ The disclosure of the split of the Council's defined-benefit pension liabilities between funded and unfunded benefits overstated the funded liability and understated the unfunded liability by £10,057k. There was no impact on the total liability reported;
- ▶ The disclosure of benefits paid to Council members of the defined-benefit pension scheme was also overstated by £1,668k. This had no impact on the net pension liability reported on the balance sheet as benefits paid are deducted equally from both pension assets and pension liabilities;
- ▶ The disclosure of the future minimum lease payments receivable by the Council under operating leases was understated by £4,739k. We note the majority of this misstatement was due to misrecording of lease terms for the Council's investment property, which also resulted in an understatement of the property valuations reported earlier in this section;
- ▶ The disclosures of rental income and associated expenditure arising from the Council's investment properties were both overstated by £887k. The net amount and the individual amounts recorded in the main Comprehensive Income and Expenditure Statement were correct;
- ▶ The disclosure of transactions with related parties omitted the disclosure of transactions between the Council and the Northamptonshire Pension Fund;
- ▶ We noted a number of inconsistencies and disclosure errors within financial instrument disclosures, arising primarily from inconsistent classification from the prior year as to which debtor and creditor balances qualify as financial instruments.

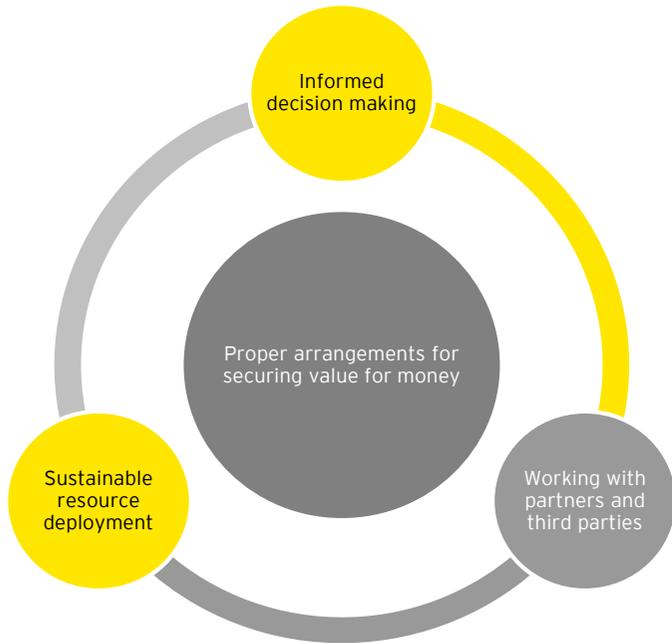


05

Value for Money



Value for Money



Background

We are required to consider whether the Authority 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.

Overall conclusion

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk identified in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We reported as part of our 2018/19 audit that management adopted a less formal approach to addressing the remaining actions of the Governance Action Plan, and formally closed the plan in September 2018 with several actions either outstanding or implemented in a manner which we were unable to conclude as embedded within the organisation. As a result, we were unable to conclude that the necessary improvements in governance and internal controls were fully embedded throughout the year ended 31 March 2019 and we issued a qualified VFM opinion. The Authority made only limited additional progress on these actions during 2019/20, therefore we remain 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 will issue an adverse value for money opinion again for 2019/20.

Further details are provided on the following page.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks identified in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Governance Action Plan In December 2016, the Council established a Governance Action Plan to address weaknesses in Council processes identified by investigations into the awarding of the loan to Northampton Town Football Club.</p> <p>Our value for money opinion was qualified in 2018/19 as we were unable to evidence that the Governance Action Plan had been fully implemented and embedded during 2018/19.</p>	<p>Informed decision making</p>	<p>We reported in our Audit Results Report for our audit of the year ended 31 March 2019 that management had 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 also however noted that there were significant elements of the plan, most notably the development of a due diligence manual and a ‘Licence to Practice Organisational Development and Training Plan’, which had not been implemented at the point the Governance Action Plan was formally closed.</p> <p>Whilst management had taken steps towards the overall objectives of the outstanding elements of the Governance Action Plan, they did so in a more informal manner which meant they were not reflected in the formal policies and procedures of the Council and we were unable to conclude that these actions were fully embedded in the organisation.</p> <p>Our assessment of the Council’s progress against the Governance Action Plan as part of our 2018/19 audit covered the period up to 31 March 2021, where we noted limited additional progress was made during 2019/20. We have confirmed through enquiries of management that steps taken by the Council during 2019/20 continued to be of a less formal nature. We also noted:</p> <ul style="list-style-type: none"> ▶ The development of a due diligence manual, which was initially paused pending a wider review of the Council’s constitution which concluded in November 2018, was not completed prior to the dissolution of the Council in March 2021; and ▶ The scope of the ‘Licence to Practice Organisational Development and Training Plan’ was amended to reflect management’s updated assessment of the training needs of members and officers, however it remained under development when the Council was dissolved on 31 March 2021. <p>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 will issue an adverse value for money opinion.</p>



Value for Money Risks

Impact of Covid-19 on our Value for Money assessment

On 16 April 2020, the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment, auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We have not identified any such evidence of a significant failure in arrangements as a result of Covid-19 during the financial year, therefore no significant VFM risk is recognised in relation to Covid-19.



06 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

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

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

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

Other powers and duties

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

We note that a public interest report in respect of the loan to Northampton Town Football Club, from which the Governance Action Plan considered in Section 5 of our report arose, was published on 27 January 2021.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Northampton Borough Council’s financial reporting processes. We have one matter to report.

The Accounts and Audit Regulations 2015 require that a responsible financial officer signs and dates the financial statements prior to commencement of the period for public inspection. Whilst we understand the financial statements were internally approved by the responsible finance officer, the version published on the Council’s website for public inspection was neither signed nor dated and did not therefore comply with the requirements of the Accounts and Audit Regulations 2015.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Due to the subsequent demise of the Authority, 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 successor West Northamptonshire Council:

- As described in sections 2 and 4, 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 reported the same observations as part of our 2018/19 audit, however we note that the draft Statement of Accounts for 2019/20 was produced prior to conclusion of our 2018/19 audit.



08

Independence

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 28 July 2021.

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Audit and Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 29 September 2021.

We confirm we have not undertaken non-audit work outside of the Statement of Responsibilities of Auditors and Audited Bodies as issued by the Public Sector Audit Appointments Ltd.

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2020.

Description	Final fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Base scale fee	62,197	62,197	62,197
Increase for changes in risk and regulatory environment [notes 1,3]	93,346	-	93,346
Revised Base Fee	155,543	62,197	155,543
Additional audit fee for response to specific audit findings [notes 2,3,4]	TBC	-	261,457
Total Audit Fee	TBC	62,197	417,000
Non-audit services	-	-	-
Total Fees	TBC	62,197	417,000

Notes on following page

Confirmation and analysis of audit fees

Note 1 - Scale Fee Variation

We wrote to management and the Northampton Borough Council 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.

Note 2 - Additional audit fee for response to specific audit findings

Where we identified significant risks and other areas of audit focus as part of our 2018/19 audit, as reported to the Audit and Governance Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. In addition, we have encountered challenges completing our planned procedures due to the availability of supporting evidence and the limited number of individuals remaining within the Council with knowledge of balances and transactions, which has increased the amount of audit effort required to complete our procedures. This work was over and above that assumed in the scale fee.

Note 3 - Agreement of audit fee (2018/19)

We have held discussions with management in respect of our audit fees for 2018/19 and have submitted our proposals to Public Sector Audit Appointments (PSAA) and asked them to make a determination as to the additional fee to be charged.

Note 4 - Agreement of audit fee (2019/20)

We will seek to agree our final audit fee for our 2019/20 audit with management once our audit is concluded and the extent of additional work required fully known. The level of additional fee required for our response to specific audit findings will be dependent upon the level of effort required to conclude the outstanding matters listed in Appendix D, however we currently estimate this to be in the range £82,000 to £132,000.

New UK independence standard

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; and
- ▶ 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 2019, which came into effect from 1 April 2020.

We have not and do not currently 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

Audit approach update

We summarise below our approach to the audit of the balance sheet.

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

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

We have tested each of these assertions substantively for all material balances included in the Balance Sheet.

Appendix B

Summary of communications

Date 	Nature 	Summary 
20/04/2021	Meeting	The audit team met with management to discuss the updating of the draft 2019/20 statements for findings during the 2018/19 audit, likely key audit areas for 2019/20 and the timing of our 2019/20 audit.
04/05/2021	Meeting	The audit team met with management prior to commencing our detailed audit procedures to discuss key audit areas and agree on the practical aspects of undertaking our detailed audit procedures.
06/05/2021	Meeting	The audit team met Mazars, as the external auditor for the Council's subsidiary Northampton Partnership Homes, to discuss their 2019/20 audit and the required reporting to us as Group auditor.
28/05/2021	Meeting	The audit team met with BDO, as the internal auditor of the Council, to discuss the 2019/20 internal audit programme of work and internal audit's views on the Council's internal control environment.
16/06/2021	Meeting	The audit team attended the first meeting of the Audit and Governance Committee of West Northamptonshire Council, and provided an update on the 2018/19 and 2019/20 audits.
28/07/2021	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Audit and Governance Committee.
29/09/2021	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Audit and Governance Committee.

In addition to the above specific meetings and reports, the audit team have met weekly with the financial statement closedown team throughout the audit period to discuss emerging findings, completion of our audit procedures and the status of our audit. We have also held ad-hoc meetings on specific audit matters, as required.

Prior to the dissolution of Northampton Borough Council on 31 March 2021, we also met with senior management of the Council to discuss the key issues known to be relevant to our 2019/20, including the Council's implementation of the Governance Action Plan. Written enquiries were also made of senior management and the Northampton Borough Council Audit Committee at the end of March 2021 into matters relevant to our 2019/20 audit.

Appendix C

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit 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	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)

Appendix C

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report (this report)	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and ▶ Material misstatements corrected by management 	Audit Results Report (this report)	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud 	Audit Results Report (this report)	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)	

Appendix C

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report; and Audit Results Report (this report)	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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; and ▶ 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 (this report)	
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report (this report)	
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report (this report)	

Appendix C

Required communications with the Audit Committee (continued)

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

Appendix D

Outstanding matters

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

Item 	Actions to resolve 	Responsibility 
Pension liabilities (restatement)	Management to provide restated figures for the prior year exclusive of NPH members, and amend the financial statement disclosures to reflect.	Management (to provide) EY (to review)
Pension liabilities (membership data)	Between ourselves, management and the Pension Fund, determine how to obtain assurance over the membership data provided to the actuary to inform valuation of pension scheme liabilities.	Management / EY
PPE valuations	Management to provide responses to remaining queries on individual asset valuations, including providing updated valuations where input data has been agreed as incorrect.	Management (to provide) EY (to review)
Collection Fund reliefs	We have only just received breakdowns of the reliefs totals to support audit sampling, as IT issues meant management were unable to run the necessary report. Samples need to be selected and supporting evidence provided.	Management (to provide listing sample evidence) EY (to select and test samples)
Other balances testing	We are still to conclude the testing of a number of balances within the financial statements. A number of queries are with management for response and a further number have been provided by management and need reviewing by the audit team.	Management / EY
Other disclosures testing	Similar to the testing of balances, we have a number of queries still to be concluded in respect of financial statement disclosures.	Management / EY
Updated Statement of Accounts	Management have implemented a large number of changes to the Statement of Account agreed during the audit, and remaining audit procedures may still give rise to further amendments. We will need to trace through all of these changes to confirm they are complete and appropriate.	Management (to provide) EY (to review)

Appendix D

Outstanding matters (continued)

Item 	Actions to resolve 	Responsibility 
Going concern	We are considering going concern in the context of West Northamptonshire Council to provide coverage of each of the demised bodies, including Northampton Borough Council. This work is nearing completion, when a final disclosure will be agreed with management for inclusion in the Statement of Accounts.	EY (to complete procedures) Management (to update disclosure)
Internal review	We are still completing our internal review procedures and final documentation to ensure the quality of our work.	EY
Letter of Representation	We require the signed Letter of Representation from management and the Audit & Governance Committee before we can conclude our audit.	Management / Audit & Governance Committee
Subsequent events review	We perform subsequent events procedures, including further enquiries of management, up to the date of our auditor's report.	Management / EY

Management representation letter

We include below a copy the management representation letter which we request is printed on the Council's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with the same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

Ernst & Young
400 Capability Green
Luton
LU1 3LU

Dear Sirs,

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Northampton Borough Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Northampton Borough Council as of 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with, for the Group and Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.

Management representation letter (continued)

Management Representation Letter (continued)

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because *[management to specify reasons for not correcting misstatement]*.

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- ▶ involving financial statements;
- ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's

activities, its ability to continue to operate, or to avoid material penalties;

- ▶ involving management, or employees who have significant roles in internal controls, or others; or
- ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ▶ Additional information that you have requested from us for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the Covid-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council and committees, including the Audit Committee, held prior to the demise of the Council on 31 March 2021. We have made available to you all minutes of the meetings of the Council and committees, including the Audit and Governance Committee, of the West Northamptonshire Council, as the successor body held from 1 April 2021 to *[TBC]*.

Management representation letter (continued)

Management Representation Letter (continued)

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 31 March 2021 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than the transfer of the Council's functions, services, assets and liabilities to West Northamptonshire Council described in Note 1Bv to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Council's subsidiary because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council and subsidiary undertakings and associated undertakings.

G. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.

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

 **Appendix E**

Management representation letter (continued)

Management Representation Letter (continued)

H. Going Concern

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

I. Ownership of Assets

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

J. Reserves

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

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Retirement Benefits

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

Yours faithfully,

Martin Henry, Executive Director of Finance (West Northamptonshire Council)

Cecile Irving-Swift, Chair of the Audit and Governance Committee (West Northamptonshire Council)

*To be attached:
Appendix A - Schedule of Unadjusted Audit Difference*

Appendix F

Regulatory update

There have been a number of regulatory developments which will impact our 2020/21 audit which we would like to bring to your attention. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Northampton Borough Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> ▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> ▶ Under the revised 2020 Code of Audit Practice we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. ▶ Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 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 companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019. Non-audit services which were in progress as at 15 March 2020 and are permitted under the previous ethical standard are allowed to continue under the existing engagement terms until completed. ▶ We do not currently provide any non-audit services to you.

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