

# WEST NORTHAMPTONSHIRE COUNCIL

## AUDIT & GOVERNANCE COMMITTEE

29<sup>TH</sup> SEPTEMBER 2021

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<b>Report Title</b>	<b>Approval of Northampton Borough Council Statement of Accounts 2019-20</b>
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### List of Appendices

**Appendix A – Summary of adjustments to the Statement of Accounts 2019-20**

**Appendix B – Statement of Accounts 2019-20**

**Appendix C - Letter of Representation 2019-20**

### **1. Purpose of Report**

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- 1.1. Following the reorganisation of local government in Northamptonshire on 1 April 2021, West Northamptonshire Council (WNC) undertook to oversee the conclusion of the audit of prior year accounts for Northampton Borough Council (NBC) and other sovereign authorities within the county.
- 1.2. This report presents the final audited Statement of Accounts and the draft Letter of Representation of Northampton Borough Council (NBC) for 2019-20 for consideration by the Committee.
- 1.3. The Audit Results Report contained elsewhere in this agenda indicates that there are a number of audit lines of enquiry that need to be concluded to enable the audit to be finalised beyond the date of the Committee. Therefore, the Audit Committee will not be asked to approve the Statement of Accounts or the Letter of Representation at the Committee, but instead is asked to delegate authority to the Executive Director of Finance and Chair of the Committee as explained below.
- 1.4. The auditor will present the Audit Results Report elsewhere on this agenda and will provide a verbal update to the Committee on the expected timing of the conclusion of the remaining audit work. The Audit & Governance Committee is asked to consider the Statement of Accounts and draft Letter of Representation for 2019-20 and delegate authority to the Executive Director of

Finance and the Chair of the Audit & Governance Committee to finalise any further amendments to:

- the final Statement of Accounts 2019/20 to be signed by the Executive Director of Finance (s151 Officer) and the Chair of the Audit & Governance Committee.
- the Letter of Representation in respect of Northampton Borough Council 2019/20 to be signed by the Chair of the Audit Committee and the Executive Director of Finance (s151 Officer) on behalf of the Council.

Following signature of the final Statement of Accounts and Letter of Representation, the Auditor will issue the audit opinion and certificate.

## **2. Executive Summary**

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- 2.1. The report sets out the context for the preparation and audit of the 2019-20 accounts for the Borough Council together with the responsibilities of the statutory s151 Officer and Audit & Governance Committee in relation to presentation and approval of the accounts.
- 2.2. An explanation of the core financial statements is provided to present the financial performance of the Council for the year ended 31 March 2020 together with a summary of the main adjustments to the accounts as a result of the audit.
- 2.3. The External Auditor is required to report separately to this Committee on the findings during the audit of accounts and provide an opinion on the arrangements for securing value for money in the use of resources.
- 2.4. Having considered the External Auditor's report and verbal update, the Committee is asked to delegate authority to the Executive Director of Finance and the Chair of the Committee to agree any final amendments and:
  - Approve the Statement of Accounts for 2019/20 as set out at Appendix B.
  - Approve the Letter of Representation set out at Appendix C.
- 2.5. It is a requirement that the letter of representation is signed by persons with specific responsibility for the financial statements, which for this Council is the Executive Director of Finance (s151 Officer) and formally acknowledged as being correct by 'those charge with governance' by being signed by the Chair of the Audit & Governance Committee.

## **3. Recommendations**

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- 3.1. Subject to the auditor's position as set out in the Audit Results Report and verbal update elsewhere on this agenda it is recommended that the Audit & Governance Committee:
  - a) delegates authority to the Executive Director of Finance and Chair of the Audit & Governance Committee to approve and sign the letter of representation for 2019/20 on behalf of the Council at Appendix C as revised by the resolution of outstanding items set out in the Audit Results Report; **and**

- b) delegates authority to the Executive Director of Finance and the Chair of Audit & Governance Committee to approve and sign the final Statement of Accounts for the Borough Council for 2019/20 at Appendix B as revised by the resolution of outstanding items set out in the Audit Results Report.

#### **4. Reason for Recommendations**

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- 4.1 The recommendations are necessary to comply with legislation and policies of the Council.

#### **5. Report Background**

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- 5.1. The draft accounts were published and considered by the Audit Committee within NBC on 26 October 2020 whilst the audit of the 2018-19 accounts was in progress. Following the completion of the 2018-19 audit on 8 April 2021, a number of adjustments to the 2019-20 draft accounts were necessary prior to presenting to the Council's auditors Ernst & Young LLP (EY LLP) for audit in May 2021.
- 5.2. At the time of writing this report, the 2019-20 Audit is now substantially complete and the s151 Officer, being the responsible financial officer, confirms that he is satisfied that, subject to any final amendments as set out in the Auditor's report, the statement of accounts presents a true and fair view of:
- The financial position of the Council at the financial year ending 31 March 2020 and
  - The authority's income and expenditure for that financial year.
- 5.3. The accounts are presented on a basis that complies with International Financial Reporting Standards (IFRS) and Code of Practice on Local Authority Accounting (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 5.4. The objective of the Statement of Accounts is to provide information about the Borough Council's financial performance to a wide range of users for assessing stewardship of the Council's management.
- 5.5. The External Auditor has reported separately to this Committee on the results of the audit of accounts and provided a proposed opinion on the accounts and the Council's arrangements for securing value for money in the use of resources. The Committee is required to consider the Statement of Accounts in the context of the auditor's findings.
- 5.6. Subject to approval of the recommendations in this report, the certified Statement of Accounts will be published as soon as practicable. This is later than the statutory reporting deadlines and reporting requirements of 31 July 2020 and is allowed for by regulation 10 paragraph (2a) of the Accounts and Audi Regulations 2015. The delay is due to the following reasons:
- The audit of the accounts did not commence until May 2021, after the signing of the accounts for the year ended 31 March 2019 by EY LLP on 8 April 2021.
  - Resource constraints existed in relation to delivering the accounts of multiple sovereign authorities out of the normal reporting cycle, therefore there were competing priorities with establishing the new unitary authorities.

- There were a number of complex audit queries that the Council worked with EY to resolve.

## 6. Issues and Choices

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6.1. The final Statement of Accounts is set out at Appendix B and comprises:

- **The Narrative Report** – providing a summary of the most significant matters reported within the accounts and of the Council’s financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on its performance in 2019-20.
- **Statement of Responsibilities** – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statements and the financial management of the Council.
- **The Core Financial Statements** – providing the Council’s financial position as at 31 March 2020 comprising of:
  - **Comprehensive Income and Expenditure Statement (CIES)** – Reports the net cost for the year of all the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
  - **Movement in Reserves Statement (MIRS)** - Shows the movement in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.
  - **Balance Sheet** - Presents the value of the Council’s current and non-current assets and liabilities as at 31 March 2019 with the bottom line effectively being the net worth of the organisation.
  - **Cash Flow Statement** - Summarising the inflows and outflows of cash arising from transactions with third parties, this analysis shows how the Council generates and uses cash and cash equivalents.
- **The Expenditure and Funding Analysis (EFA)** – this demonstrates to council tax payers how the funding available to the Council has been used to provide services, the EFA also shows how this expenditure is allocated between the Council’s directorates.
- **Additional statements** – for the Collection Fund, the Housing Revenue Account (HRA) and Group Accounts.
- **Notes to the Core Financial Statements and the EFA** - these provide further supporting details on aspects of the accounts and which are largely defined by the Code.
- **Accounting Policies** – this section details the accounting policies followed by the Council throughout the year and applied in producing the Statement of Accounts.
- **Glossary** – the Statement inevitably includes a number of technical terms and this section provides an explanation of their meaning.

6.2. The draft Statement of Accounts 2019-20 was issued and published on the Northampton Borough Council’s website in October 2020. The final accounts including all audit adjustments are presented in Appendix B of this report.

6.3. The external auditor identified errors which have not been adjusted in the final Statement of Accounts for the reasons set out in the Letter of Representation at Appendix C.

### **Amendments to the Pre-audit Statement**

6.4. There have been a number of audit adjustments as a result of the audit. Amendments to the statements are summarised below and at Appendix A. This compares the final position on the Balance Sheet and Comprehensive Income and Expenditure Statement with the draft Statement of Accounts presented to the Auditor in May 2021 after the adjustments resulting directly from the 2018/19 audit. The amendments set out in this report are reflected in the accounts appended to this report. The Committee's attention is drawn to the key amendments as agreed with the auditor that are listed below:

- Various adjustments between Short Term Debtors (£15.4m) and Short Term Creditors (£13.0m) to correctly represent the receipt of business rates income, outstanding balances with Northamptonshire Partnership Homes and the receipt of income from the Community Infrastructure levy.
- The reclassification of £0.5m to Long Term Debtors from Short Term Debtors, to correctly reflect the nature of the investment.
- An adjustment of £0.6m to Receipts in advance and Short Term Debtors, to correctly reflect receipt of a Community Infrastructure levy payment in 2020/21.
- Collection Fund (Business Rates) adjustment -£1.4. This adjustment related to payments made to other councils within Northamptonshire as part of the Business Rates Pooling and Pilot 75% Retention Scheme. As this was a one off pilot in 2019-20 there was no previous procedure to follow and the payments were miscoded to balance sheet debtor and creditor codes. The underspend resulting from this miscoding had been appropriated to the earmarked Rates Retention Deficit Funding Reserve. The payments should have been recorded in revenue and are now corrected to revenue codes and the associated appropriation to earmarked reserves has been reversed.
- Revision to the Business Rates Appeal Provision to release £3.8m. This change has resulted in a surplus on the collection fund of £6.0m. A change from a deficit of £3.6m. This surplus will feed into preparations for the 2022/23 budget.

The updated Draft Statement of Accounts 2019/20 is included at Appendix B, and reflects the comments made by the Auditors and resolved fully by officers by Tuesday 14 September.

- 6.5. The impact of the adjustments upon the General Fund Outturn, the General Fund Reserve and usable Revenue and Capital Reserves is summarised in Table 1 below:

**Table 1 - Movement in General Fund Reserves**

	<b>Earmarked Reserves</b>	<b>Unrestricted General Fund</b>	<b>Total General Fund Reserves</b>
	£m	£m	£m
Balances per draft accounts	21.9	4.0	25.9
Collection Fund (Business Rates) adjustment	-1.4	-	-1.4
<b>Total General Fund Reserves</b>	<b>20.5</b>	<b>4.0</b>	<b>24.5</b>

**Balance Sheet**

- 6.6. The effect of the audit adjustments upon the Council's balance sheet at 31 March 2020 is summarised in Table 2 below:

**Table 2 - Movement in Net Worth**

	£m
Net Worth in Draft Accounts	456.3
Mis-recording of NDR income (via debtors/creditors)	-1.4
Increase in value of long term investment	+0.1
<b>Revised Council Net Worth</b>	<b>455.0</b>

6.7. Table 3 below sets out the issues outstanding at the date of producing this report. The Committee will receive an update from the auditor regarding the resolution of those issues and any resulting amendments at the Committee on 29 September. Some issues are expected not to be resolved until after the committee date and therefore delegation is sought for the final statement and letter of representation to be approved by the Executive Director of Finance and the Chair of the Committee. It is anticipated that these changes will have no impact on the level of general earmarked reserves that are held by the Council.

**Table 3 - Audit 2019/20 On going areas as at 14 September 2020**

Area	Potential Impact
Pensions – Confirmation of Membership numbers	Changes to the balance sheet due to revision to the Pensions liability to reflect a revised number of active and deferred members who would be entitled to pensions in future years
Pensions- Revision to 2018/19 to confirm NBC only	Revision to prior year and current figures (estimated impact is a reduction of £16.5m). The figures at the end of 2019/20 will not alter
Non-current assets – reduction in the value of garages	A number Garages demolished during 2019/20 where redevelopment of housing sites is planned need to be adjusted for in the accounts. The estimated impact is a reduction in values of 1.4m. Work is nearing completion to finalise this adjustment.
Non-current assets-valuation of specific properties.	A small number of properties have been valued using information that has now been updated for changes such as rent reviews. These affect the value of the properties and made lead to revisions to values of assets held on the balance sheet.
Financial Instruments	Revision to the notes included to improve information disclosed in the accounts.
Group Accounts	Revision to NPH debtors and creditors to be reflected in the consolidated group statements.

## **7. Implications (including financial implications)**

- 7.1. **Resources and Financial** - There are no resources or financial implications arising from the recommendations set out in this report.
- 7.2. **Legal** - There are no legal implications arising from the recommendations set out in this report. The actions proposed in the report will enable the Council to meet its statutory requirements in finalising the Northampton Borough Statement of Accounts for 2019/20.

- 7.3. **Risk** - There are no significant risks arising from the proposed recommendations in this report.
- 7.4. **Consultation** - Not applicable.
- 7.5. **Consideration by Overview and Scrutiny** - Not applicable. There is no requirement to have this report considered by Overview and Scrutiny.
- 7.6. **Climate Impact** – There are no direct climate impacts associated with this report.
- 7.7. **Community Impact** - The decisions set out in this report have no impact upon customers or the services that they receive.

## **8. Background Papers**

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- 8.1. There is none.