Northamptonshire County Council

Audit results report

Year ended 31 March 2020

September 2021

Building a better working world

Private and Confidential

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

17 September 2021

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Northamptonshire County Council for the 2019/20 audit.

We have substantially completed our audit of Northamptonshire County Council for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we expect to include an Emphasis of Matter paragraph in our audit opinion to draw the readers attention to disclosure in the financial statements on the local government reorganisation in Northamptonshire. We are reporting a number of matters about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, 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 Committee meeting on 29 September 2021.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Encl

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.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the successor to 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 to the July 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan, with the following updates.

Materiality:

- In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £9.8 million, with performance materiality, at 50% of overall materiality, of £4.9 million, and a threshold for reporting misstatements of £491k. This level of materiality remains appropriate for the actual results for the financial year.

Information Produced by the Entity (IPE):

As a result of the continued need for remote working, we identified increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

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

Status of the audit

We have substantially completed our audit of Northamptonshire County 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 following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 03. However until work is complete, further amendments may arise:

- Finalisation of testing of the valuation of property, plant and equipment and investment property, including review of the work of our internal expert;
- Finalisation of work to gain assurance over the defined benefit pensions liability, including liaison with the pension fund auditor;
- Transaction testing in relation to debtors (including prepayments and bad debt provision), overdraft, creditors, other income and the expenditure funding analysis;
- Confirmation of amendments made by management to notes for financial instruments, cash flow statement, cash and cash equivalents and exit packages;
- Finalisation of work, including internal consultation, on our conclusions in relation to going concern;
- Review of progress against recommendations made in the prior year audit;
- Associate Partner and Partner review of audit work;
- Partner Review of our work to address the value for money risks identified in our Audit Plan;
- Review of an updated set of statements incorporating any amendments;
- Receipt of the signed management representation letter; and
- Completion of subsequent events review to the date of our audit report.

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

Executive Summary

Audit differences

Based on the work we have completed to date, we identified one unadjusted judgemental difference in the draft financial statements which management has chosen not to adjust. We ask that such differences be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the letter of representation. The aggregated impact of unadjusted audit differences on the Comprehensive Income and Expenditure Statement is £0.581 million. We agree with management's assessment that the impact is not material.

We have also identified a number of audit differences which have been adjusted by management. Details of the most significant adjusted differences can be found in Section 04 Audit Differences.

Further differences may be identified on completion of the outstanding audit procedures noted in this report.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Northamptonshire County 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 "Findings in Identified Risk Areas" 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 Committee.

Significant difficulties encountered in the audit

In the prior year, we reported significant difficulties that caused delays to our audit. We are pleased to report that, although there are still legacy issues faced by the closedown team in retrieving some documents, the current year audit has been significantly smoother. We would however note that, although the working papers have improved significantly, further improvements are still required and in some areas the working papers are still poor. We have included in Section 07 the most significant issues we have encountered.

Control observations

During the audit, we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. Section 07 provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2019/20 audit. We have provided a more detailed report to management which includes commentary on the issues identified and a follow-up of issues presented to previous committees.

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 Plan, we identified significant risks concerning financial resilience, Ofsted findings in relation to the areas for improvement identified in Children's Services, CQC findings in relation to areas for improvement in Health and Social Care, and risk management. We have included in Section 05 the detailed work we carried out in response to these risks.

The Council was proactive throughout the 2019/20 financial year in addressing several issues that were identified in the prior year. However, during the year to 31 March 2020, weaknesses in arrangements were still in evidence, as reflected in the Ofsted findings for improvement in Children's Services. In addition, weaknesses in risk management arrangements remained, with the Corporate Risk Register not being sufficiently comprehensive and not providing sufficient detail of the risks and the related controls in order to be effective in mitigating risks for the Council.

Based on the work we have completed to date, we expect to issue a qualified value for money conclusion, reflecting weaknesses present in the Council's arrangements to fully implement Ofsted inspection findings and risk management during 2019/20.

The findings reflect our assessment of arrangements in place during 2019/20. We note the Council has taken action to improve arrangements in a number of these areas. We will review and report on these arrangements as part of our work to support the 2020/21 value for money conclusion.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council.

We have no other matters to report.

Independence

Please refer to Section 08 for our update on Independence.

02 Findings in Identified Risk Areas

Fraud risk

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

Significant Risk

What is the risk?

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

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

The Council has a significant fixed asset base (£1,202 million net book value at 31 March 2020) and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What did we do?

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

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

What are our conclusions?

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

As set out in section 07, we have provided a more detailed report to management which includes commentary and a recommendation regarding the processes to gain assurance that contributions made to schools for capital purposes are spent as intended.

Fraud risk

Risk of fraud in revenue and expenditure recognition - Incorrect classification of revenue expenditure funded by capital under statute

Significant Risk

What is the risk?

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

By incorrectly classifying expenditure as revenue expenditure funded by capital under statute (REFCUS), the Council could improve the reported revenue position.

REFCUS totalled £16.5 million in 2019/20 and £33.7m in 2018/19.

What did we do?

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

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

What are our conclusions?

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

Fraud risk

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

Significant Risk

What is the risk?

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

We have assessed that an area open to a greater risk of manipulation is in the inappropriate application of cut-off such that expenditure related to the 2019/20 financial year is recorded in 2020/21.

We have also identified a risk relating to the deferral of expenditure accruals and overstatement of year end debtor balances to again improve the reported 2019/20 outturn. We have identified that the manipulation of year end debtor and creditor balances as the most likely means to impact the reported income and expenditure positions, rather than in year income and expenditure postings.

What did we do?

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

- Performed cut-off procedures to ensure items of expenditure are recorded in the correct year;
- Tested year-end debtors and creditors at a lower testing threshold to verify they have been recorded at the appropriate amount and in the correct year; and
- Extended our testing of unrecorded liabilities to September 2020 to address the increased risk associated with the extended period management have had to compile the financial statements.

What are our conclusions?

Our work on the cut-off of creditors (which also addresses our risk of expenditure cut off) has comprised reviewing all items, one month either side of the year-end in excess of our testing threshold of £246k. Our testing has not identified any exceptions.

Our testing of unrecorded liabilities has not identified any liabilities which have been omitted from the 2019/20 financial statements.

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

Our work has been completed with no material exceptions identified.

Fraud 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 did we do?

We have performed mandatory procedures to address the general risk of fraud, regardless of specifically identified fraud risks. These included:

- Identifying fraud risks during the planning stages;
- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud.

In addition we performed mandated procedures to address this risk, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for any significant unusual transactions.

What are our conclusions?

Our testing of journals has identified weaknesses in the control environment which have been outlined in Section 07. These generally relate to difficulties in obtaining information to support journals. We have however not identified any inappropriate journals within our testing that indicate management override of controls.

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

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

Significant risk

Valuation of property, plant and equipment, including investment property

What is the risk?

The fair value of land and buildings and investment properties represents a significant balance (£480 million at 31 March 2020) in the Council's accounts and is subject to depreciation charges (£19 million in 2019/20), valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We specifically focussed on assets where a higher degree of estimation uncertainty exists; which for Northamptonshire County Council are those assets valued under one of the following valuation methods: fair value (such as investment properties); depreciated replacement cost (specialised operational assets for which an active market does not exist); and existing use value (operational assets for which there is an active market to provide comparable evidence).

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

What did we do?

To address this risk, we have:

- Evaluated the selection and application of accounting policies to determine whether the accounting policies are being applied in an inappropriate manner;
- Reviewed the classification of the Council's land and buildings and assessed whether the appropriate valuation basis has been adopted;
- Adjusted the nature and extent of our audit procedures and increased our sample sizes.

We have taken a substantive approach to respond to this significant risk, undertaking the following procedures related to the valuation of land and building, including investment properties. As part of our work we have:

- Considered the work performed by the Council's valuers, including assessing the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information and assumptions used by the valuers in performing their valuations;
- Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale;
- Considered any specific changes to assets that have occurred and checked that these have been communicated to the valuer;
- Tested valuation assumptions used by the valuer for a sample of assets;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base not subject to valuation is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

We have also engaged EY valuation specialists to assist the audit team to review a sample of asset valuations.

Significant risk

Valuation of property, plant and equipment, including investment property

(Continued)

What are our conclusions?

We have not identified any issues in our work on the valuation of land and buildings including investment property. However until the work of our valuations expert has been finalized we are unable to conclude in this area.

Significant risk

Going concern assessment and disclosures

What is the risk?

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

What did we do?

In undertaking this work, as the Council ceased to exist on 31 March 2021, the going concern assessment focussed on the service continuity provided by the two new Unitary Councils. We reviewed the Council's going concern assessment and disclosure for 2019/20 in line with auditing requirements and considered in particular the Council's consideration and disclosure of the impact on the future financial position as a result of Covid-19 and the local government reorganisation.

We also considered whether these disclosures included details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).
Our audit procedures to review these included considerations of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting;
- Sensitivities and stress testing;
- Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.; and
- Continuation of services post local government reorganisation.

We conclude that the UK Parliament enacted plans that do impact on the continued operational existence of the sovereign Northamptonshire Councils beyond 31 March 2021, but that their activities transferred to the two Unitary Councils. Therefore, the going concern basis of preparation of financial statements for each sovereign Council for the period up to 31 March 2021 remains appropriate.

We have completed a single piece of work across Northamptonshire that considers whether service provision can continue at similar levels after the 1st April 2021 and for the period of the going concern assessment. This considered the existing and available business plans and budgets for each new unitary council, and how forecast net expenditure can be met by cashflows and available to use reserves.

This work also considered whether the Council have appropriately disclosed this position and how this informs any modifications to our audit report.

Our findings are set out on the following page.

Areas of Audit Focus

Going concern assessment and disclosures - What are our conclusions?

The Going concern assessment needs to cover a period of 12 months from the date of our audit report and will therefore need to cover the period to October 2022.

West Northamptonshire Unitary Council (WNUC) and North Northamptonshire Unitary Council (NNUC) set balanced budgets for financial year 2021/22 and have forecast usable reserves to be £85 million and £98 million respectively at the end of the 2021/22 financial year. Management used 'incremental budgeting' to develop the 2021/22 budget, with the starting point being the combined 2020/21 budgeted position of the Councils being replaced. Management have then adjusted the budget for known costs and savings.

The General Fund revenue budgets for the new Councils are still settling, as they are a combination of disaggregated County Council budgets and an aggregation of District and Borough budgets from West Northamptonshire. They were approved before the majority of service redesigns and staffing structures were implemented for the new councils. Since the 1st April, the new Councils have reviewed budgets and applied zero based financial planning to ensure they are sufficient to cover commitments, and adequately fund new service designs and ways of working. This process will inform to 2022/23 budget and update the provisional medium term financial plan.

The quarter one revenue monitoring reports for WNUC reports:

- The provisional outturn position for the sovereign councils at 31/3/2021 shows a £14 million increase in the opening reserve position, £2 million increase for general fund reserves and £12 million increase in Earmarked reserves (Excluding Business Rates S31 Grant).
- The forecast outturn position for 2021-22 is an overspend of £1.6m, which is 0.5% of the net budget, before the application of the contingency budget.

We have reviewed management's assessment and concluded that there is no material uncertainty in WNUC being able to continue with the provision of service. Our conclusion is based on the following key factors:

- Starting budget – We have agreed the starting position to the combined 2020/21 budgets of the Councils being replaced. We have reviewed the 2020/21 provisional outturn for each individual Council and noted that the opening reserves for WNUC is £14 million higher than forecast in the provisional 2021/22 budget.
- 2021/22 incremental costs – management assumed total in year incremental costs of £27 million (WNUC). The most significant incremental cost relates to Covid-19 lost income and additional expenditure which management have forecast before the receipt of any additional Covid-19 government support. We have compared this figure to the total Covid-19 cost in 2020/21 for the Councils being replaced, which indicates the assumption is reasonable.
- Saving assumptions – management has assumed total in year savings of £13 million (WNUC) in 2021/22 and £7 million (WNUC) in 2022/23 . These saving assumptions are not significant in the context of the overall budget and we have therefore not reviewed them in detail. We have however removed all forecasted savings in our 'plausible downside' scenario referenced below.

Areas of Audit Focus

Going concern assessment and disclosures - What are our conclusions?

- 2021/22 funding – the key funding sources for the Council is business rates, council tax, and government grants. We have confirmed business rates and council tax are in line with the amounts collected by the individual bodies in previous years. For government grants we have agreed all significant assumed grants to third party support. We also note that due to the timing of the budget setting it does not include additional Covid-19 central government support in 2021/22.
- 2022/23 – We have reviewed the 2022/23 budget set out in the provisional MTFP, the councils removed or reduced one off or uncertain funding like covid one off grants, business rates growth and new homes bonus.
- Plausible downside – We have performed our own plausible downside. In this scenario, we have assumed the impact of Covid-19 in 2021/22 is the same as the impact in 2020/21. We have also removed all assumed savings from the budget. For 2022/23, we also removed all assumed savings from the budget and assumed the budget gaps would not be mitigated.
- Reverse stress test – we have also performed a reverse stress test. This shows income would need to fall, or expenditure increase, by 15.3% (WNUC) for usable reserves to drop to nil in 2021/22, and 13.9% (WNUC) for usable reserves to drop to nil in 2022/23.

Our work is in the context that the new council continues to review and challenge their budgets as part of zero based financial planning.

We have agreed a revised going concern disclosure for the financial statements covering the basis of preparation, how the financial baseline was established for the unitary councils, the 2021/22 budgets and medium-term financial plans, the latest revenue budget forecasts for 2021/22, the key risks and uncertainties, and the current financial planning process to build the 2022/23 budget and update the provisional MTFP.

We included an Emphasis of Matter paragraph in our Audit Report to draw attention to the disclosures made by the council regarding the local government reorganisation.

We are currently completing work concerning NNUC.

Other risk

Valuation of pension liability

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- Liaised with the auditors of the pension fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assessed the work of the Pension Fund actuary, including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team;
- Considered the impact of any movement in pension fund asset values between the date of the IAS19 report and 31 March 2020, taking into account assurance requested from the pension fund auditor on these movements; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We also paid particular attention to the disclosures and considerations made by the actuary in relation to the emerging response to the McCloud and GMP judgements which have an impact on the overall scheme liabilities shared between the participating bodies.

Areas of Audit Focus

Valuation of pension liability risk - What are our conclusions?

We have considered EY Pensions review of the work of PWC, the consulting actuaries with no significant findings to report.

The pension fund auditor has highlighted to us a discrepancy in membership data between numbers held by the pension fund and those used by the actuary.

The difference between the figures used, although not exact due to the timing of the triennial calculations, is in the region of 1,300 members classified as deferred by the actuary that should have been recognised as active. The impact of this would be to increase the overall liability of the Council. The actuary has performed calculations to establish a range of how much the liability may have been understated by as at 31 March 2020. This range is between £0.5 million and £0.9 million. We have performed our own calculations to corroborate the work of the actuary and note that the top end of our range of £0.6 million which, although above our trivial reporting threshold, would represent an immaterial judgemental difference. This is included in Section 04.

Due to the immaterial value of the difference, the Council have determined in discussion with the actuary, not to re-perform any calculations based on the accurate membership data for 2019/20. We report this difference to the Committee but conclude that it does not lead to a material misstatement of the liability at the balance sheet date.

As at 14 September 2021 our planned work in this area substantially complete. We have two areas to conclude:

- 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 Fund's administration systems. We have asked management to demonstrate to us that this would not have a material impact on the pension liability. 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.

- An issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the new auditing standard on accounting estimates. We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Committee with a verbal update on progress at the 29 September 2021 meeting.

Other risk

Minimum Revenue Provision (MRP)

What is the risk?

MRP represents the minimum amount charged to the Council's revenue account each year in order to cover the Council's capital financing requirement (CFR).

The Council reviewed their MRP policy with effect from 2017/18 and identified that MRP had been over-provided, based on a retrospective application of the Council's new MRP policy. The Council planned to release this amount over subsequent years.

In 2018/19, we confirmed that MRP charged in previous years on supported and unsupported borrowing exceeded the amounts that would have been due under the Council's revised policy. However, we had not agreed the exact amount of the overprovision or how this would be unwound in future periods. We agreed to work with management in 2019/20 to confirm the position.

What did we do?

We:

Worked with management and challenged their assumptions and calculations as they

- reperformed Capital Financing Requirement calculations required to determine MRP due under the Council's current policy.
- remodelled the MRP calculations, assessing conclusions drawn on the work and assumptions used in the calculation.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to MRP.

What are our conclusions?

A Council's Capital Financing Requirement (CFR) is an important calculation as it identifies the level of capital expenditure which is yet to be financed and therefore what needs to be financed either from MRP charges to the general fund or from other sources.

Officers were initially unable to provide evidence to support the breakdown of the Council's CFR. Officers agreed to reconstruct the CFR position from 1 April 2007 to 31 March 2020. Detailed findings from this work are set out on the next two slides, but the main findings from this work are summarised below:

- The CFR as at 1 April 2019 was reduced by £1.306 million in order to reconcile the position per the statements to the revised calculations.
- MRP charged in 2019/20 was reduced by £731,000 as the Council took advantage of an additional overprovision identified as part of this work.
- We agreed a total MRP overprovision, compared with the Council's current policy, up to and including 31 March 2020 of £81.2 million. This assumed an average useful life of 35 years for all unfinanced capital expenditure incurred from 1 April 2008.
- The Council does not currently charge MRP in relation to capital loans and investments which represents a departure from the statutory guidance issued by MHCLG. We recommend the Council reconsiders whether this policy leads to a prudent provision.
- The Council should ensure it maintains more detailed accounting records to support the MRP charges applied to unsupported CFR incurred from 1 April 2020.
- As at 31 March 2018, capital receipts of £11.68 million had not been recognised in the capital receipts reserve. This has been corrected as a prior period adjustment in the 2019/20 statements.
- Finance staff need further training on how to account for repayments of capital loans to ensure the CFR and MRP workings remain consistent with the balance sheet in future.

Minimum Revenue Provision – detailed findings

Capital Financing Requirement (CFR) revisited

The Council's CFR is calculated by reference to entries on its balance sheet and is a matter of fact. It represents cumulative capital expenditure that is yet to be financed from capital or revenue sources. A Council's CFR should be split into constituent parts with accounting records in sufficient detail to support the basis of MRP charges. This includes details of: what capital expenditure has been financed; the useful life of any capital expenditure that has not been financed; and the dates when relevant assets became operational.

The Council did not have supportable records of: unfinanced assets from 1 April 2008, when those assets became operational or the useful lives of those assets. We therefore agreed with management that the best approach was to:

- revisit and agree the total CFR balances for each year from March 2007 to March 2020;
- reconstruct and agree the underlying elements of the CFR that could be supported by audited statement of accounts, such as the unfinanced PFI and lease liabilities;
- agree the CFR supported by government grant as a start point – this assumed that all spending pre 1 April 2008 was supported and all spending post 1 April 2008 was unsupported;
- agree the movements in CFR each year and the allocation of that movement to its relevant CFR component;
- agree the allocation of any balancing elements of the in-year movements to unsupported CFR as there is no alternative; and
- agree the total MRP charged in each year per the audited statements and work out the amount that should be allocated to unsupported borrowing.

As a result of the above work, the opening CFR as at 1 April 2019 was overstated by £1.306 million. This will be corrected by management in the revised statements.

Revised MRP calculations

Having agreed the CFR positions for each individual element and the allocation of the annual MRP charges, management were in a position to determine the size of the overprovision by recalculating MRP due under the Council's new policy compared to MRP charged in audited statements. The revised MRP calculations assumed the following:

- all capital expenditure became operational in the year it was incurred; this is the most prudent assumption
- all capital expenditure incurred post 1 April 2008 was assumed to have a useful life of 35 years. The risk is that 35 years is too high. If the useful life was 25 years the MRP due in 2019/20 would increase by £5 million and the size of the overprovision as at 31 March 2020 would be £50 million rather than £81.2 million. If the useful life was set at the maximum of 50 years then the MRP due in 2019/20 would drop by £3.5 million and the overprovision as at 31 March 2020 would increase to £102 million. It is for the Council to determine what constitutes a prudent revenue provision. We accept 35 years is a reasonable overall average for financing the Council's outstanding CFR as at 31 March 2020. Going forward, we recommend the Council's successor bodies maintain records in more granular detail in order to charge MRP in line with the actual useful lives of unfinanced capital expenditure.

As a result of the above we agreed:

- the remaining overprovision of MRP as at 31 March 2020 amounted to £81.2 million.
- MRP charged in 2019/20 could be reduced by £731,000. This will be corrected by management.

Areas of Audit Focus

Minimum Revenue Provision - What are our conclusions?

Capital loans and investments

The Council does not charge MRP on its capital loans and investments. This is a departure from the statutory guidance issued by MHCLG. The Council is required to have regard to the guidance which states councils should calculate MRP in accordance with the asset life method on expenditure incurred on or after 1 April 2008 which is:

- Financed by borrowing and credit arrangements; and
- Treated as capital expenditure by virtue of Regulation 25(1) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

For capital loans, the useful life adopted should be the life of the asset being financed. For equity investments, the useful life should be 20 years. The outstanding CFR as at 31 March 2020 on loans and investments is £23.492 million.

The statutory guidance does allow Councils to consider alternative methods of calculating MRP. The accompanying guidance notes explain that councils may, in some cases, consider that a more individually designed MRP approach is justified. That could involve taking account of detailed local circumstances, including specific project timetables and revenue-earning profiles. In our view, not charging MRP because CFR will be repaid from future capital receipts, is not a method of charging MRP and therefore this represents a departure from the guidance.

We recommend that Those Charged with Governance of the successor bodies consider whether the Council's policy in respect of its loans and investments leads to a prudent revenue provision. If the assets being financed through these capital loans have an average useful life of 25 years, and an equal instalments policy was applied, this would indicate an additional MRP charge of £0.94 million. MRP charges on the loans would cease to be charged once the loans have been repaid in full.

Other comments:

- Council finance staff have historically accounted for repayments of capital loans incorrectly. When a capital loan is repaid, the repayment should be credited to the capital receipts reserve. The outstanding debtor balance should be transferred to the capital adjustment account (CAA). The Council should then follow its MRP policy and apply the capital receipt against the outstanding CFR by transferring the capital receipt to the CAA. As at 31 March 2018, capital receipts of £11.68 million had not been recognised in the capital receipts reserve. This has been corrected as a prior period adjustment in the 2019/20 statements.
- Management agreed to remove Adjustment A, which totalled £16.1 million, from its revised MRP calculations on supported CFR. Adjustment A was introduced when the revised system of capital controls came into effect from 1 April 2004 and is a fixed figure. Adjustment A ensured that Council's were no worse off under the new CFR regime than the previous credit ceiling arrangements. MHCLG statutory guidance provides four ready made options for calculating MRP, one of which is the "regulatory method". The Council's new MRP policy does not deploy the regulatory method and therefore the use of Adjustment A was not applicable. The current policy has the effect of raising the CFR by £16.1 million for the purposes of calculating MRP. This reduces the size of the overprovision.

Other risk

PFI and service concession arrangements

What is the risk?

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

The Council's total future obligation in relation to its PFI schemes as at 31 March 2020 is £1.05 billion. These values are derived from complex models which reflects a number of assumptions which may change over the life of the contract. Any errors in the model could impact on liabilities and any charges to revenue in year.

What did we do?

We have:

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

What are our conclusions?

We have no issues to bring to your attention in relation to our work in this area.

We have considered the need to consult our internal specialist. Considering the assurance we had from their review undertaken in the previous year and the fact that there were no changes to the significant PFI schemes in 2019/20, we concluded that we had sufficient assurance from the work undertaken by the audit team and did not need to engage a specialist in this area for 2019/20.

03 Audit Report

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Our proposed opinion on the financial statements

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

Opinion

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

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

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 Northamptonshire County Council 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 Authority 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 Note 1 which discloses the local government reorganisation in Northamptonshire. As stated in this disclosure, two new councils called West Northamptonshire Council and North Northamptonshire Council will replace the Authority in April 2021. The Authority's assets, liabilities, services and functions transferred to the new West Northamptonshire Council and North Northamptonshire Council on 1 April 2021.

Our opinion is not modified in respect of this matter.

Audit Report - continued

Our proposed opinion on the financial statements

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 2019/20, 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

Children's Services
A single inspection of Children's Services undertaken by Ofsted in 2016 assessed the service as requires improvement in all areas. Ofsted carried out two further focused inspections during 2018/19. In May 2018 Ofsted identified poor quality of assessments as well as a lack of detail in some areas and lack of oversight supervision, in the November 2018 inspections they identified poor workforce capacity leading to unmanageable caseloads.

Our proposed opinion on the financial statements

Ofsted undertook one inspection in June 2019. The Council were rated inadequate in 3 of the 4 areas of inspection. The Ofsted report identified a range of significant weaknesses in services whose effectiveness is central to protecting children. A revised Statutory Direction was issued to Northamptonshire County Council on 10 June 2019 due to continued poor performance in Children's social care services. This included a Direction for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a wholly owned Council company for the delivery of Children's social care services (or Children's Services trust) in Northamptonshire.

The Council took action to address the concerns about social worker recruitment and retention, and approved the creation of a Children's Trust as a vehicle for decisive change to improve Children's Services. The Northamptonshire Children's Improvement Plan demonstrates that actions were being taken to address the concerns raised by Ofsted, An Ofsted report in October 2020 stated that "inspectors found convincing evidence that services for children and young people in Northamptonshire are starting to improve, albeit from a very low base". Whilst the Council had taken steps to improve Children's Services throughout the year, it had not managed to address all of Ofsted's findings during 2019/20.

The issue is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Risk Management
The creation and maintenance of a risk register shows the Council has a proactive approach to risk management, and that it has considered specific controls to mitigate the risks identified. However, risks were not sufficiently detailed, and it was unclear which controls were intended to address which risks. In addition, the Council had not documented any consideration of the effectiveness of the deployed controls, nor indicated how the adequacy assessment is made.

Each sub-department had its own risk register, but those registers were not monitored at the Audit Committee level. This is further exacerbated by a lack of oversight of the Corporate Risk Register outside the Audit Committee. There was only limited review by Cabinet, and the Oversight and Scrutiny Committee was also not kept appraised of any risk management issues.

The creation and maintenance of a risk register shows the Council has a proactive approach to risk management, and that it has considered specific controls to mitigate the risks identified. However, risks were not sufficiently detailed, and it is unclear which controls are intended to address which risks. In addition, the Council had not documented any consideration of the effectiveness of the deployed controls, nor indicated how the adequacy assessment was made. Internal Audit's review of the Corporate Risk Register found some of the risks were missing triggers, and there were omissions from the control environment.

Overall, whilst the risk registers were maintained on a regular basis and appear to be updated and reviewed with regularity by the Audit Committee, the Corporate Risk Register was not sufficiently comprehensive, and did not provide sufficient detail of the risks and the related controls to be effective in mitigating risks for the Council.

This leaves a risk that failure to properly identify, address and monitor risks, will limit the Council's ability to make informed decisions and deploy resources sustainably.

The issue is evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control.

Audit Report - continued

Our proposed opinion on the financial statements

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, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Northamptonshire County 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 the Responsibilities set out on page 21, 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.

Audit Report - continued

Our proposed opinion on the financial statements

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.

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 the Northamptonshire County 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 the Northamptonshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 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, the Northamptonshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

Audit Report - continued

Our proposed opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

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

Janet Dawson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
Date 2021

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 adjusted differences

We highlight the following misstatements greater than our performance materiality of £4.9 million which have been corrected by management that were identified during the course of our audit:

Misstatements impacting the Prior Year Balance Sheet:

- An error of £11.7 million within the opening balance of the Capital Receipts Reserve (CRR) and the Capital Adjustment Account. The error relates to capital receipts not recognised in the CRR correctly, resulting in an understatement of the CRR and overstatement of the CAA.

Misstatements impacting only the MiRS:

- In-year application of capital receipts to reduce the related Capital Financing Requirement in relation to the above error that should have been recognised in prior years. The use of these reserves in the current period is £14.3 million, with the balance of £2.6 million being the application of £1.3 million capital receipts in each of 2018/19 and 2019/20.

Misstatements impacting the Balance Sheet with no impact on the CIES:

- £7.3 million error in schools bank reconciliations where advances were incorrectly deducted. The adjustment made increases both the cash and creditor balances of the Council

Misstatements impacting the disclosures only:

- It has been brought to our attention by management that exit package disclosures for both the current and prior year were presented without the inclusion of the capital cost (pension strain element) of the package. Adjustments processed by management total £250k for 2018/19 and £112k for the current year.

Audit adjustments below our performance materiality were made to long term debtors, short term debtors, deferred liabilities, short term creditors and the Movement in Reserves Statement.

Audit Differences

Summary of unadjusted differences

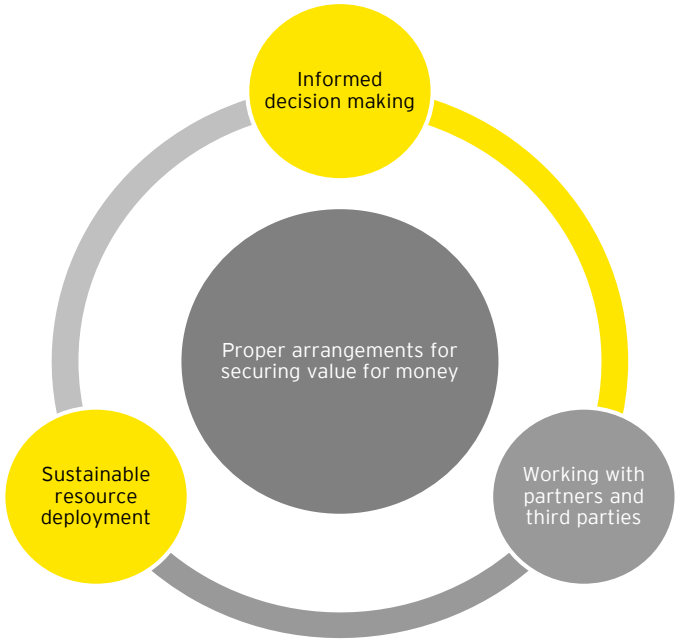
In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and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

Uncorrected misstatements 31 March 2020 (£000)	Effect on the current period:			Balance Sheet (Decrease)/Increase	
Errors	Comprehensive income & expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Judgemental differences:					
Increase to Defined Benefit Pension Liability in respect of difference in membership data, with the General Fund impact being reversed to the Pensions Reserve	£581,000			(£581,000)	

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2020.

05 Value for Money Risks

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.

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 did not identify any significant failures.

Overall conclusion

We identified four significant risks related to the Council's arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

The Council was proactive throughout the 2019/20 financial year in addressing several issues that were identified in the prior year. However, during the year to 31 March 2020, weaknesses in arrangements were still in evidence, as reflected in the Ofsted findings for improvement in Children's Services. In addition, weaknesses in risk management arrangements remained, with the Corporate Risk Register not being sufficiently comprehensive and not providing sufficient detail of the risks and the related controls in order to be effective in mitigating risks for the Council.

Based on the work we have completed to date, we expect to issue a qualified value for money conclusion, reflecting weaknesses present in the Council's arrangements to fully implement Ofsted inspection findings and risk management during 2019/20.

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 areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience The Council has a history of serious financial difficulties, with inadequate budgeting and monitoring processes, evidenced by adverse value for money conclusions in 2017/18 and 2018/19. Some progress was noted up to the end of 2018/19 in relation to the Council's arrangements to recover the financial position based on sustained efforts to identify additional savings and in-year mitigations, as well as tighter monitoring of expenditure. Monthly updates and discussions regarding financial performance are evidenced in the Cabinet minutes through the Monthly Revenue Finance Reports, with an improved level of detail to support informed decision making. However, more action and progress was required to achieve a sustainable financial position. Although the Council delivered an underspent position for 2018/19, this was heavily reliant on a capital dispensation obtained, the S114 Notice being in place keeping spending to a minimum required level, and the one-off measures and non-recurrent transactions identified in the year. The savings identified in the Stabilisation Plan were only partially achieved (less than 50%), which suggests that either the planned savings were overly ambitious, or the Council failed to implement the necessary actions to achieve them.	**Take informed decisions / Deploy resources in a sustainable manner**	Our work focused on assessing whether: ➢ Management actively monitored performance against the budget during the year and, if necessary, took reasonable actions to address divergences; ➢ The Council used reasonable assumptions for the preparation of the 2020/21 MTFP; ➢ The level of savings assumed within the 2020/21 MTFP were realistic considering the Council's past performance in achieving planned savings; and ➢ The available reserves and balances were adequate compared to the Council's overall budget requirements and arrangements were established to ensure these were used in a sustainable manner to address unexpected/one-off events. On the basis of the work we concluded that the Council had proper arrangements in relation to financial resilience to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people during 2019/20. We have provided more detail on our findings on the following pages.

Value for Money Risks

Detailed findings from our work on the Financial Resilience vfm risk?

Management actively monitored performance against the budget during the year and, if necessary, took reasonable actions to address divergences.

The Council's budget for 2019/20 was £417.7 million, and was approved on 21st February. The budgeted figures at Directorate level did not show an increase proportionate with the historical overspend. The Council recognised this risk, highlighting the need for strong monitoring and preparation of timely action plans, together with ensuring that all practical steps had been considered in order to account for any potential risks and uncertainties.

Throughout 2019/20, financial performance was monitored by Cabinet in its monthly meetings through the Monthly Revenue Monitoring Reports, showing an updated forecast performance for the year and differences against the initial budgeted position. Performance was further analysed in detail at Directorate level, highlighting both challenges and mitigating actions.

The monitoring process supported the Council in taking actions to mitigate overspending or under-delivery of budgeted savings.

The Council delivered a balanced position for the 2019/20 General Fund, without drawing on earmarked reserves. This was achieved in the context of a significant overspend for Children's Services Directorate and 20% of undelivered budgeted savings, being offset predominantly by underspend in Place, Corporate and Northamptonshire Adult Social Services (NASS) Directorates.

Value for Money Risks

Detailed findings from our work on the Financial Resilience vfm risk? (continued)

The Council used reasonable assumptions for the preparation of the 2020/21 MTFP.

During 2019/20, the Council prepared and presented to Cabinet the 2020/21 Budget. The Local Government Reorganisation meant that 2020/21 is the last year that the County Council was in existence. From 1st April 2021, two new unitary councils were in existence for the financial year 2021/22 onwards.

Cabinet agreed on 12 November 2019 to a draft Budget and MTFP presented by the Chief Financial Officer (CFO). The proposals were then subject to a period of public consultation and reviewed by the Overview and Scrutiny Panel.

The areas under scrutiny included spending and savings proposals in Adult Services, Children's Services, Place and Wellbeing, as well as Corporate. These recommendations were incorporated, where appropriate, into the final draft budget proposals. Cabinet agreed in February 2020 to the updated Budget presented by the CFO, which was approved by Full Council.

For 2020/21 the Council had budgeted a balanced position with a required overall Base Budget of £645.9 million. The core assumptions of the budget were:

- Service pressure and growth in services costs;
- Continued low inflation;
- Increase of 2% in the general council tax, plus an additional 2% for social care precept;
- Continuation of specific grants including the dedicated schools grant;
- Continuation of other sources of funding (business rates; new homes bonus);
- Additional funding for social care;
- Transformation strategy and flexible use of capital receipts; and
- Delivery of agreed savings.

We reviewed the core assumptions and compared against budget monitoring for 2020/21. We concluded that the assumptions used in the preparation of the budget were reasonable.

Value for Money Risks

Detailed findings from our work on the Financial Resilience vfm risk? (continued)

The level of savings assumed within the 2020/21 MTFP were realistic considering the Council's past performance in achieving planned savings.

The Council actively monitored the achievement of savings on a monthly basis through the quarterly Revenue Monitoring Reports and detailed quarterly Savings Trackers, which assessed each individual saving proposal per related Project and Directorate. Service Leads, Budget Managers and Senior Officers were accountable for deliverability of these proposals, which were also reviewed by Cabinet and Scrutiny & Overview Committee in order to discuss issues and mitigating actions.

The annual budgeted figures for 2020/21 were significantly lower than in previous years, which reduced the pressure and was more aligned with the Council's ability to deliver savings. The Council had made progress in 2019/20 in relation to regular monitoring and reporting of savings achievement, and if this were to continue into 2020/21 then the budgeted £22.9 million of savings look reasonable.

The available reserves and balances were adequate compared to the Council's overall budget requirements and arrangements were established to ensure these were used in a sustainable manner to address unexpected/one-off events.

The Council has had a history of relying on reserves to balance the General Fund Budget.

The General Fund Balance was established in November 2018 when the Council obtained approval for its application for capital dispensation. One of the elements of the approval was the creation of an unallocated revenue reserve of £20 million. The budgeted earmarked reserves comprised the Budget Delivery Reserve (amounting to £11.6 million), Public Health Reserve (amounting to £5.5 million) and Insurance Reserves (£3.5 million).

A reserve for COVID-19 Funding (amounting to £17.2 million) was included in the budget. This was based on the 20 March 2020 announcement of Government funding for emergency support to deal with Covid-19.

The reserves position at the end of 2020/21, shows an increased reserves position of £59.6 million, indicating that the position held at the end of 2019/20 was adequate compared to the Council's overall budget requirement.

The levels of reserves held by the Council are still below the levels other County Councils typically hold. However, the levels of funds built into the General Fund and the Budget Delivery Reserves were able to cover budget variances over the 2020/21 period. This was supported by the government funds provided for COVID-19 (totalling £35.4 million) which helped to cover related spending pressures.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Children's Services Inspections of Children's Services undertaken by Ofsted in 2016 and 2018 assessed the service as 'requires improvement' in all areas. The Council took steps, such as the creation of Northamptonshire Children's Improvement Plan, to address the concerns raised by Ofsted. The target dates for most of the actions were predominately in FY 2019/20.	Take informed decisions	Ofsted undertook one inspection during 2019/20, in June 2019. The Council were rated inadequate in 3 of the 4 areas of inspection. The Ofsted report stated "*Northamptonshire's Children's Services are failing to keep children safe. While some progress has been made since the Ofsted focused visit in October 2018, there remains a range of significant weaknesses in services whose effectiveness is central to protecting* children". A revised Statutory Direction was issued to Northamptonshire County Council on 10 June 2019 due to continued poor performance in children's social care services. This included a Direction for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a wholly owned Council company for the delivery of Children's social care services (or Children's Services trust) in Northamptonshire. Our review found that the Council had not effectively addressed the areas of concern identified by Ofsted during 2019/20. Whilst there was a sufficient level of oversight from Cabinet and the Oversight & Scrutiny Committee, the June 2019 Ofsted report rated the service "inadequate" across several different judgement areas. Improving services to achieve the next level (i.e. "requires improvement") will require significant change and development from the Council. A review of the Oversight & Scrutiny Committee minutes throughout the year showed the Council had been pro-active in addressing the concerns about social worker recruitment and retention, and the decision to create a Trust to try and create an effective vehicle for decisive change is evidence that the Council was taking action to improve Children's Services. Having the Northamptonshire Children's Improvement Plan to use as a basis for necessary improvement indicates that actions were being taken to address the concerns raised by Ofsted, Indeed, an Ofsted report in October 2020 stated that "*inspectors found convincing evidence that services for children and young people in Northamptonshire are starting to improve, albeit from a very low base*". Whilst the Council had taken steps to improve Children's Services throughout the year, it had not managed to address all of Ofsted's findings. We conclude the Council did not have proper arrangements to respond to the recommendations raised by Ofsted during 2019/20. We will therefore be qualifying our VFM conclusion in this respect in the form included in section 3.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
CQC local system review A local system review for Northamptonshire was carried out by the Care Quality Commission in April 2018, reporting in June 2018, to understand how people move through the health and social care system in Northamptonshire. The report highlighted weaknesses and challenges in the system and included suggested areas of focus for the system to secure improvement. The Council implemented a series of changes in light of the CQC Report during 2018/19. However, by June 2019, five out of 23 actions remained outstanding.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	The Council has continued to implement changes throughout 2019/20 in response to the 2018 CQC report. The Council has continued to make progress on implementing its action plan, and at the end of 2019/20 the action plan was substantially completed and being used to monitor continued development against the key improvement themes. Whilst the action plan produced by the Council did not clearly identify how the actions included would address the specific CQC recommendations initially, the condensed plan made this more discernible. In 2019/20, the Health and Wellbeing Board (HWB) received multiple updates on the CQC report and action plan and, given the progress made against the plan, this appears to have been an effective and appropriate approach. The Council has addressed the findings from the CQC report and needs to continue to build and develop in those areas to ensure improvement in care continue and that the next CQC review produces a positive result. We therefore concluded that the Council had proper arrangements in relation to taking properly informed decisions, deploying resources in a sustainable manner and working with partners and other third parties in respect of responding to the findings from the CQC local system review during 2019/20

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Risk management The Council had a history of weaknesses for its risk management framework as evidenced by adverse VFM conclusions in 2017/18 and 2018/19. Our work in 2018/19 identified, whilst the risk registers were maintained on a regular basis and there is evidence they were updated and reviewed with regularity by the Audit Committee, the quality of the Corporate Risk Register was insufficient. Failure to properly identify, address and monitor risks will limit the Council's ability to make informed decisions and deploy resources sustainably.	Take informed decisions / Deploy resources in a sustainable manner	The creation and maintenance of a risk register shows the Council had a proactive approach to risk management, and that it has considered specific controls to mitigate the risks identified. Review of the risk registers presented to the Council throughout the year however identified flaws and lack of detail in the risks and controls. For example, risks were not sufficiently detailed and it is unclear which controls are intended to address which risks. In addition, the Council had not documented any consideration of the effectiveness of the deployed controls, nor indicated how the adequacy assessment was made. Internal Audit's review of the Corporate Risk Register found some of the risks were missing triggers and there were omissions from the control environment. Overall, whilst the risk registers were maintained on a regular basis and appear to be updated and reviewed regularly by the Audit Committee, the Corporate Risk Register was not sufficiently comprehensive and did not provide sufficient detail of the risks and the related controls to be effective in mitigating risks for the Council. This results in a risk that failure to properly identify, address and monitor risks will limit the Council's ability to make informed decisions and deploy resources sustainably. We conclude there were significant weaknesses in arrangements during 2019/20. We will therefore be qualifying our Value for Money Conclusion in this respect in the form included in section 3.

06 Other reporting issues

Other reporting issues

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

We are required to 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 was consistent with the audited financial statements.

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

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 Council 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 also have a duty to make written recommendations to the Council, 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 reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must inform you of significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the any significant difficulties encountered during the audit.

In the prior year, we reported significant difficulties that caused delays to our audit. We are pleased to report that, although there are still legacy issues faced by the closedown team in retrieving some documents, the current year audit has been significantly smoother. We would however note that, although the working papers have improved significantly, further improvements are still required and in some areas the working papers are still poor.

Section 07 provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2019/20 audit. We have provided a more detailed report to management which includes commentary on the issues identified and a follow-up of issues presented to previous committees.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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

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

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.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2019/20 audit. We have provided a more detailed report to management which includes commentary on the issues identified and a follow-up of issues presented to previous committees. The matters identified are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to management.

	High	Moderate	Low	Total
Number of open observations at the start of the audit	1	12	3	16
Observations noted in 2019/20	2	5*	-	1
Issues closed in 2019/20	-	11	2	-
Number of open observations at the conclusion of the audit	3	6	1	17

*all 5 are continued or linked to issues raised in the prior year

Key:

- A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
- Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
- Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

08 Independence

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

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee in September 2021.

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

Fee analysis

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

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

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit 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 Committee in September 2021.

We confirm we have undertaken no non-audit work, outside of the Statement of responsibilities of auditors and audited bodies.

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

	Proposed Fee 2019/20	Scale Fee 2019/20	Proposed Fee 2018/19	Scale Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	**TBC ***	**105,998**	**797,982 ****	**105,998**

*As noted in our Audit Planning Report, we have agreed with PSAA that we will agree an amended scale fee to reflect the level of additional risk in the audit. We aim to set out our considerations of our fee to management as close to the conclusion of our fieldwork as possible and provide details to support any proposed scale fee variation.

**The proposed fee for 2018/19 in the table above has been approved by management and submitted to PSAA Ltd for their consideration. This has not yet been approved by PSAA Ltd and as such we have not yet billed any fee in excess of the scale fee.

09 Appendices

Appendix A

Audit approach update

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

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

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

Appendix A

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, Plant and Equipment including Assets Held for Sale	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – consistent approach as the prior year in all areas.
Heritage Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Investment Properties	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Intangible Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Cash and Cash Equivalents	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Net Pension Liability	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Debtors (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Creditors (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Borrowing (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Provisions (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
PFI / PPP Finance Lease Liability (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Capital Grants Receipts in Advance (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Usable and Unusable Reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Investments (short and long term)	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	
Inventories			

Appendix B

Summary of communications

Date	Nature	Summary
29 March 2021	Meeting	Senior members of the audit team, met with Martin Henry and Janice Gotts
20 May 2021	Meeting	Senior members of the audit team, met with Audra Statham
16 June 2021	Meeting	Senior members of the audit team attended the joint audit committee
21 June 2021	Meeting	Senior members of the audit team, met with Martin Henry and Janice Gotts
17 July 2021	Meeting	Senior members of the audit team, met with Audra Statham
28 July 2021	Meeting	Senior members of the audit team attended the joint audit committee
5 August 2021	Meetings	Senior members of the audit team, met with Martin Henry and Janice Gotts

In addition to the above specific meetings and letters the audit team met with the financial closedown team on a weekly basis throughout the audit to discuss audit progress and findings.

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.	July 2021 - Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	July 2021 - Audit planning report
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ 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 ▸ Other matters if any, significant to the oversight of the financial reporting process ▸ Findings and issues regarding the opening balance on initial audits	September 2021 - Audit result report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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 ▸ The adequacy of related disclosures in the financial statements	September 2021 - Audit result report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	September 2021 - Audit result report

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	September 2021 - Audit result report
Related parties	Significant matters arising during the audit in connection with the Council'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 ▸ Difficulty in identifying the party that ultimately controls the Council	September 2021 - Audit result report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	July 2021 - Audit planning report And September 2021 - Audit result report

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	September 2021 - Audit result report
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have no issues to report
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ 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	We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	July 2021 - Audit planning 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	July 2021 - Audit planning 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	July 2021 - Audit planning report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	July 2021 - Audit planning report
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	July 2021 - Audit planning report

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]
Ernst & Young
1 More London Place,
SE1 2AF
London,
United Kingdom

This letter of representations is provided in connection with your audit of the financial statements of Northamptonshire County Council ("the 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 financial statements give a true and fair view of the Council financial position of Northamptonshire County Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with 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 financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the 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 financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has 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.
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 financial statements taken as a whole. We have not corrected the difference identified by and brought to the attention from the auditor because we believe that it has occurred due to a matter of judgement considered trivial to the understanding of the accounts.

B. Financial Statements and Financial Records

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

Management representation letter

Management Rep Letter

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 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 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 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 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 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, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period, including those of the successor bodies to the Authority, to the date of this letter.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period 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 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 Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter, dated 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 unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

Management representation letter

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 financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 32 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. As outlined in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Statement of Accounts 2019/20 (including the Narrative Statement and Annual Governance Statement.)
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note 1 to the financial statements discloses all the matters of which we are aware that are relevant to the 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
2. Having regard to the Code and its reporting requirements the Council concludes that it is appropriate to prepare the financial statements on a going concern basis.

H. Reserves

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

I. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.
3. Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and building assets and investment property and the IAS19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records.

Management representation letter

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.

K. Estimates

Valuation of Land, Buildings and Investment Properties

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the valuation of land, buildings and investment properties estimate appropriately reflect our intent and ability to continue to provide services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with provide a valuation for these assets in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

IAS 19 Pensions Liability Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. All confirm that the significant assumptions used in making the IAS 19 Pensions Liability estimate appropriately reflect our intent and ability to provide a valuation for these assets in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates is complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements due to subsequent events.

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,

_____

(Chief Financial Officer/Finance Director)

Appendix E

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. 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 Northamptonshire County Council
Code of Audit Practice 2020	▸ 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.	▸ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▸ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ 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.	▸ 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	▸ 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.	▸ 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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