

**Northamptonshire County  
Council Pension Fund**

**Provisional Audit Results Report  
Year ended 31 March 2021**

**17 September 2021**

17 September 2021



**Audit & Governance Committee**  
**Northamptonshire County Council Pension Fund (“the Pension Fund”)**  
**One Angel Square**  
**Angel Street**  
**Northampton**  
**NN1 1ED**

Dear Audit & Governance Committee Members

We are pleased to attach our Provisional Audit Results Report, summarising the status of our audit for the forthcoming Committee meeting. This report summarises our preliminary audit conclusion in relation to the audit of Northamptonshire County Council Pension Fund for 2020/21.

We have substantially completed our audit of the Pension Fund for 2020/21, with certain outstanding areas pending reviews. Please refer section “Executive Summary” for further details on status of work.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Pension Fund’s accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on the 27 September 2021.

Yours faithfully

A handwritten signature in blue ink that reads "Debbie Hanson". The signature is written in a cursive, slightly slanted style.

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

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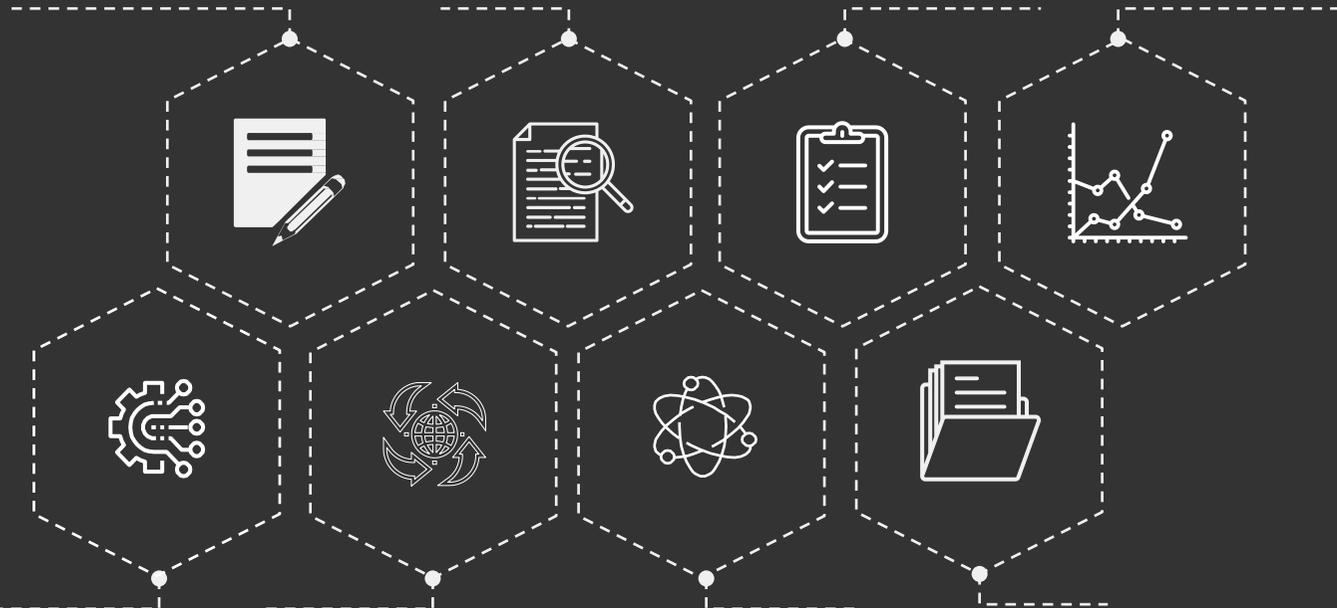
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit & Governance Committee and management of Northamptonshire County Council Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Committee and management of Northamptonshire County Council Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and the management of Northamptonshire County Council Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our Audit Planning Report presented on 28 July 2021 Audit & Governance 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 and we have not made any revisions to the audit risks and planned audit procedures set out within the Audit Plan, with the following updates:

**Auditing accounting estimates:** A revised auditing standard has been issued for the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether or not there is a significant risk. The changes to the standard have affected the nature and extent of information requested and increased the level of audit work required.

**Materiality:** In our Audit Planning Report, we communicated that our audit procedures would be performed using a planning materiality of £30.77 million, with performance materiality of £23.08 million, which is 75% of planning materiality, and a threshold for reporting misstatements of £1.54 million. We calculated our planning materiality assessment using the draft accounts. We have not reassessed our materiality since then as there has been no significant changes in circumstances leading us to update our materiality.

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the restrictions upon the audit team to verify original documents or re-run reports on-site from the Pension Fund'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.

# Executive Summary

## Status of the audit

Our audit work in respect of the Pension Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ Financial Statements from Harbourvest are pending from management as a support to our Level 3 investments testing;
- ▶ Final documentation on our Level 3 investments testing;
- ▶ IAS 19 Reporting - a query is pending from management in relation to contributions variance;
- ▶ Journals Testing;
- ▶ Minor work around some disclosures in Financial Statements;
- ▶ Subsequent events review up to the date of our audit report;
- ▶ Consideration of going concern disclosure and supporting evidence;
- ▶ Procedures surrounding the agreement of the final set of financial statements;
- ▶ Completion of final consistency checks between the Pension Fund financial statements and the Northamptonshire County Council full Statement of Accounts, which includes the Pension Fund's financial statements.
- ▶ Receipt of signed management representation letter and accounts; and
- ▶ Final Manager and Engagement Partner reviews.

Subject to satisfactory completion of the above outstanding items, we expect to issue an unqualified opinion on the Pension Fund Financial Statements in the form which appears at Section 3.

## Audit differences

We have not identified any differences which management has not agreed to amend.

We identified the following audit differences which has been corrected in the updated draft financial statements

1. Difference between the custodian (financial statements figure) and EY calculated market price, resulting in an increase in L2 investment assets of £2.82 million.
2. Reclassification of an Level 2 investment (Hermes Property UT) to Level 3 investment as confirmed by fund manager - £12.97 million

Further differences may be identified on completion of the audit procedures noted above.

# Executive Summary

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of the Pension Fund. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

### *Misstatements due to fraud or error - Incorrect posting of the valuations notified for investment assets*

- ▶ We have substantially completed our testing and found no indications of management override of controls. The work remains final manager and partner's review.

### *Valuation of complex investments*

- ▶ We have substantially completed our work in this area, please refer above "Audit differences" for adjustments noted to date. As the work on investments is not yet concluded and still subject to final reviews, further adjustments/observations may arise.

### *Going concern disclosures*

- ▶ We are yet to perform our procedures in relation to going concern and events after the reporting date disclosures for the 2020/21 pension fund audit. This is because management will need to revisit the content of these disclosures when the 2020/21 financial statements are ready for issue. The timing of this is dependent on completion of 2020/21 Northamptonshire County Council audit. Given the uncertainty caused by Covid-19 our procedures in relation to these disclosures may require internal consultation with EY's Professional Practice Department.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues;
- ▶ You concur with the resolution of the issue; and
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by Management or disclosed in this report, which we believe should be brought to the attention of the Audit & Governance Committee or Management.



# Executive Summary

## Other assurance procedures

### IAS 19 procedures

As auditors of Northamptonshire County Council Pension Fund, we receive annual requests to provide assurances over the information submitted to the actuary by the Pension Fund on behalf of its member bodies. Under the agreed IAS 19 protocol procedures the auditors of the Pension Fund conducts procedures as requested by the auditors of the Pension Fund's member bodies. Refer to Section 2 for further details.

We are required to issue our IAS 19 assurance letters to the auditors of 14 Northamptonshire entities for the 2020/21 audits.

## Control observations

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 and which is unknown to you.

## Other reporting issues

We are required to give an opinion on the consistency of the financial and non-financial information in audited Pension Fund Accounts with the Northamptonshire County Council Statement of Accounts 2020/21. The audit of the full annual statement of accounts of Northamptonshire County Council for the year ended 31 March 2021 has not yet commenced.

In addition, we also perform procedures to ensure the consistency of the pension fund accounts with the version presented in the Pension Fund's Annual Report. Whilst we have received the Pension Fund's Annual Report recently, this is not yet complete.

Based on the review procedures conducted to date we anticipate that we will have no matters to report in relation to this work.

## Independence

Please refer to Section 7 for our update on Independence.



02

## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error:

Misstatements due to fraud or error - Incorrect posting of the valuations notified for investment assets

#### What is the risk?

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.

We have considered the key areas where management has the material opportunity and incentive to override controls. We have identified the Incorrect posting of the valuations notified for investment assets as a specific area where misstatements due to fraud or error may arise.

#### What did we do and what judgements did we focus on?

We have undertaken our standard procedures to address fraud risk, which included:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiring 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.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

We have undertaken additional procedures to address the specific risks we have identified relating to incorrect posting of journals relating to investment assets, which consists of:

- Reviewing reconciliations to the fund manager, custodian and valuer reports and investigating any reconciling differences.
- Agreeing the reconciliation of holdings included in the Net Assets Statement to the source reports.



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error: Incorrect posting of the valuations notified for investment assets (Continued)

##### What are our conclusions?

Based on the procedures performed our conclusions are:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

In relation to the specific risk identified in respect of incorrect posting of journals related to investment asset values, please refer audit differences where we have identified differences between the investment asset valuations recognised in the Net Asset Statement and independent third party valuation reports. However, overall no instances of management override of controls were identified during the audit.

We have substantially completed our work on this area, and this will be concluded once we have received the pending information (refer status of the audit in Executive Summary). The work remains subject to final manager and engagement partner's review as of the date of this report.



## Areas of Audit Focus

### Significant risk

#### Valuation of complex investments

##### What is the risk?

The Fund's investments include unquoted investment vehicles such as private equity, infrastructure and pooled property funds. The valuation of such investments are classified under IFRS 13 as level 3 investments. The valuation of level 3 investments are based on 'unobservable' inputs. Total level 3 investments of the Fund as at 31 March 2021 are £400.25 million.

The Pension Fund's Investment managers make judgements to value those investments as their prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the pension fund year end. Such variations could have a material impact on the pension fund's financial statements.

Covid-19 has created an uncertain economic environment prior to the Pension Fund's reporting date of 31 March 2021. As a result, the valuation of these complex investment assets as of 31 March 2021 were subject to increased estimation and potentially significant judgements.

##### What did we do and what judgements did we focus on?

To gain assurance over the valuation of complex investments, for a sample of level 3 investments (encompassing Private Equity, Pooled Property and Infrastructure investments) we have:

- Reviewed and disaggregated the securities making up the Level 3 investment portfolio;
- Considered the basis of valuation for these investments and assessed the appropriateness of the valuation methods used;
- Obtained and reviewed the latest audited accounts for the relevant fund managers and ensured there are no matters arising that highlight weaknesses in the funds valuation;
- Obtained ISAE3402 (or equivalent) controls reports and reviewed for any issues or qualifications impacting the valuation controls over the funds;
- Performed procedures to develop our own estimate of the 31 March valuations using evidence such as recent trading, market movements, Indices and benchmarking date, and assessed the reasonableness of valuations against our own expectations; and
- Reviewed investment valuation disclosures to verify that significant judgements surrounding the valuation of level 3 investments have been appropriately made in the Pension Fund's financial statements.

We have substantially completed our work on this area, and will be concluded once we have received the pending information (refer status of the audit in Executive Summary). The work remains subject to final manager and engagement partner's review as of the date of this report.



## Other Areas of Audit Focus



### Going concern disclosure

#### What is the area of focus?

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. There is therefore a presumption that the Pension Fund will continue as a going concern.

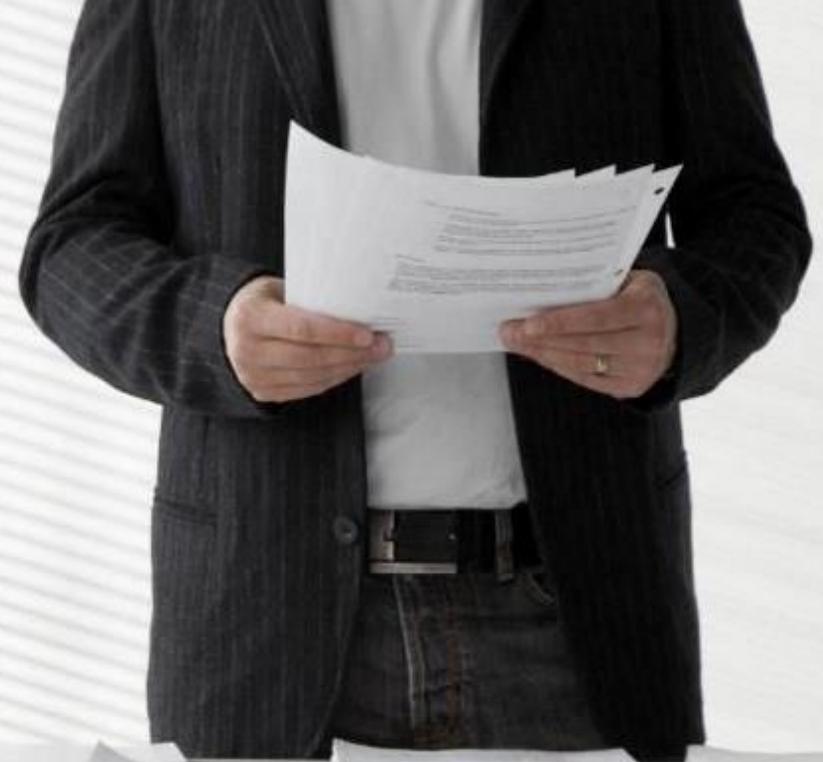
However, the current uncertain economic environment as a result of the ongoing impact of Covid increases the need for the Pension Fund to undertake a detailed going concern assessment to support this assertion.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Pension Fund's assessment will also need to cover this period. Therefore, the Pension Fund's going concern assessment and disclosure in the accounts will need to consider information relevant to potentially beyond the 2021/22 financial year to cover at least 12 months from the date of the report.

#### Current Status

We are yet to perform our procedures in relation to going concern for the 2020/21 Pension Fund audit. This is because management will need to revisit the content of these disclosures when the 2020/21 financial statements are ready for issue, the timing of which is dependent on completion of 2020/21 Northamptonshire County Council audit. We will revisit the timing of these planned procedures once the timetable for the 2020/21 Northamptonshire County Council audit is finalised. The going concern assessment will need to cover a 12 month period from the date of the audit report. Given the ongoing uncertainty caused by Covid-19 our procedures in relation to this disclosure may require internal consultation with EY's Professional Practice Department.



## 03 Audit Report



## Our proposed opinion on the financial statements

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

#### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to XXXX. 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 2020/21.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

#### 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 pension fund 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.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.



## Our proposed opinion on the financial statements

### Other information

The other information comprises the information included in the 'Statement of Accounts 2020-2021', other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information contained within the 'Statement of Accounts 2020-2021'.

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.

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 course of 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 themselves. 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.

### Matters on which we report by exception

We report to you if:

- ▶ 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.



## Our proposed opinion on the financial statements

### Responsibility of the Chief Financial Officer

As explained more fully in the 'Statement of Responsibilities for the Statement of Accounts' set out on page XXXX, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Pension Fund'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 Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

### 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.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.



## Audit Report

### Our proposed opinion on the financial statements

We understood how Northamptonshire Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the Head of Internal Audit, those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Committee minutes, through the inspection of Pension Fund policies and procedures and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise.

Based on our risk assessment procedures we identified the manipulation of journal entries of the investment income and investment asset valuations and management override of controls to be our fraud risks.

To address our fraud risk we tested the consistency of the investment income and investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested the appropriateness of the journal and that it was accounted for appropriately.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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.

### 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.

Debbie Hanson (Key Audit Partner)  
Ernst & Young LLP (Local Auditor), Luton



# 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.

Below is a summary of audit differences identified as of the date of this report. As our work is not yet concluded on certain areas, including Level 3 investments, (refer status of the audit in Executive Summary) and pending final manager and engagement partner’s review, further adjustments may be identified. We will discuss and agree those adjustments with the management.

## Summary of unadjusted differences

We have not found any difference which management has not agreed to adjust in the financial statements. However as our work is not yet concluded in certain areas, and it is still subject to manager and partner’s review, further adjustments may arise in due course.

## Summary of adjusted differences

The following audit differences have been corrected in the updated draft financial statements.

1. Difference between custodian (FS figure) and EY calculated market price, resulting in an increase in L2 investment assets - £2.82m.
2. Reclassification of an L2 investment (Hermes Property UT) to L3 investment as confirmed by fund manager - £12.97m



## 05 Other reporting issues

## 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 audited Pension Fund Accounts with the Northamptonshire County Council Statement of Accounts 2020/21. The audit of the full annual statement of accounts of Northamptonshire County Council for the year ended 31 March 2021 has not yet commenced.

In addition, we also perform procedures to ensure the consistency of the pension fund accounts with the version presented in the Pension Fund's Annual Report. Whilst we have received the Pension Fund's Annual Report recently, this is not yet complete.

### Other powers and duties

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

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

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

Other than those areas we have outlined in the previous section, we have nothing to report in respect of these matters.



06

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Pension Fund 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 Fund 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.



07

# Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Pension Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Pension Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted. We confirm that we have not undertaken non-audit work.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)

## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

As noted in our Audit Planning Report, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. A combination of pressures is impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a result, we have had to revisit the basis on which the scale fee was set. We previously shared with the management our proposal for increasing the scale fee and details of the main drivers. As a result of these factors, we are proposing an increase in the scale fee from £18,699 to £55,000. We will submit our fee estimate to PSAA for them to determine. This updated scale fee is not currently reflected in the table below.

	Planned fee 2020/21	Final fee 2019/20	Scale fee 2019/20
	£'s	£'s	£'s
Scale fee - Audit of the Pension Fund (see above comments)	18,699	18,699	18,699
Additional fee (Note 1)	TBC	16,700	-
IAS 19 assurances (Note 2)	12,000	12,000	-
Triennial review procedures (Note 3)	0	10,471	-
<b>Total fees for Code work</b>	<b>TBC</b>	<b>TBC</b>	<b>18,699</b>

#### All fees exclude VAT

Note 1 - We are still finalising the 2019/20 audit and, as communicated in our Audit Results Report, we are proposing a variation in relation to the additional work in relation to the impact of Covid-19 on a number of areas of our work including in particular going concern and post balance sheet disclosures and associated consultation requirements. We will update the Audit & Governance Committee on the final fee once we have completed the audit. This proposed additional fee will also need to be approved by PSAA.

For 2020/21, the scale fee will continue to be impacted by a range of factors, including the ongoing impact of Covid, which will result in additional work to obtain the appropriate levels of evidence to support our opinion. As we have not yet concluded our audit procedures, we are not currently able to estimate the fee in relation to this additional work. We will provide further detail and the proposed fee in our future correspondence. Any scale fee variation will be discussed with the Pension Fund and will be submitted to PSAA for approval. PSAA will determine the final fee.

Note 2 - Additional fee of £12,000 is proposed in 2019/20 and 2020/21 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies.

Note 3 - For 2019/20 we were required to undertake additional IAS19 procedures on the data submitted to the actuary to inform their triennial revaluation of the fund.

The agreed fee presented is based on the following assumptions:

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

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

# 08 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

Net Assets Statement category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment Assets and Liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Current assets & liabilities	Substantively tested all required relevant assertions	Substantively tested all required relevant assertions	N/A

## Appendix B

# Required communications with the Audit & Governance Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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.	Audit Planning Report dated 2 July 2021 - presented to Audit & Governance Committee on 28 July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report dated 2 July 2021 - presented to Audit & Governance Committee on 28 July 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Provisional Audit Results Report dated 17 September 2021 - presented to Audit & Governance Committee on 27 September 2021

## Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	Provisional Audit Results Report dated 17 September 2021 - presented to Audit & Governance Committee on 27 September 2021
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Provisional Audit Results Report dated 17 September 2021 - presented to Audit & Governance Committee on 27 September 2021
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have not identified any subsequent events. Final procedures will be performed before sign off at the time of issuing audit report.

## Appendix B

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report dated 2 July 2021 - presented to Audit &amp; Governance Committee on 28 July 2021</p> <p>Provisional Audit Results Report dated 17 September 2021 - presented to Audit &amp; Governance Committee on 27 September 2021</p>

## Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have no matters to report.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

## Appendix B

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Provisional Audit Results Report dated 17 September 2021 - presented to Audit & Governance Committee on 27 September 2021
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Provisional Audit Results Report dated 17 September 2021 - presented to Audit & Governance Committee on 27 September 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Provisional Audit Results Report dated 17 September 2021 - presented to Audit & Governance Committee on 27 September 2021
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Provisional Audit Results Report dated 17 September 2021 - presented to Audit & Governance Committee on 27 September 2021



## Appendix C - Request for a Management Representation Letter

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### Request for a Management Representation Letter

The management representation letter will follow once we are at a stage to finalise the 2020/21 pension fund audit. This will be dependent on the timing of the completion of the 2020/21 Northamptonshire County Council audit.

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