



**Northamptonshire
County Council
Audit results report**
Year ended 31 March 2021

13 April 2022



Private and Confidential

13 April 2022

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

Dear Audit and Governance Committee Members

Northamptonshire County Council 2020/21 Audit results report

We are pleased to attach our draft Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit and Governance Committee. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements.

The audit is designed to express an opinion on the 2021/21 financial statements for Northamptonshire County Council. This report contains our findings related to the areas of audit emphasis, our views on Northamptonshire County Council'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 of West Northamptonshire Council for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit and Governance Committee, other members of the Council and senior management of West Northamptonshire Council. 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 and Governance Committee meeting on 28 April 2022.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Encl

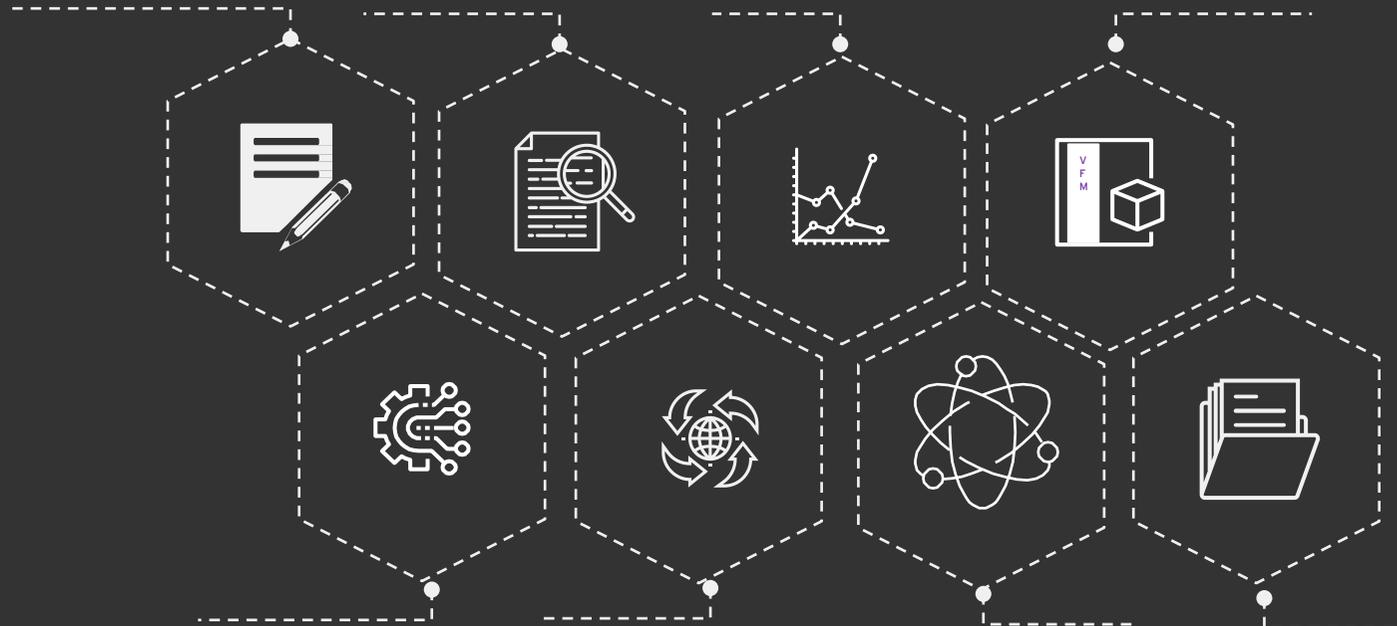
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Public Sector Audit Appointments Ltd. (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 July 2021)" 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 and Governance Committee and management of West Northamptonshire Council in accordance with the Statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of West Northamptonshire Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of West Northamptonshire Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope Update

In our audit planning report tabled at the 26th January 2022 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

New area of focus

A sector wide issue concerning the value of infrastructure assets is being considered by CIPFA and technical teams from public sector audit firms. The issue concerns the writing out of the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned. Full details of the risk are set out in section 02.

Additional audit procedures as a result of Covid-19

As a result of COVID-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities. Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

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

There was no change to our planning materiality assessment as reported in our audit planning report. Based on our materiality measure of gross expenditure our overall materiality assessment remained at £11m. The performance materiality, at 50% of overall materiality, was £5.5m, and the threshold for reporting misstatements was £0.55m.



Executive Summary

Status of the audit

Our audit work in respect of the Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report. Details of each outstanding item, actions required to resolve and responsibility is included in Appendix D.

- ▶ Valuation of One Angel Square
- ▶ Review of renegotiated Shaw PFI contract
- ▶ Pension scheme liabilities
- ▶ Covid grant income
- ▶ Group procedures
- ▶ Going Concern disclosure
- ▶ Value for money arrangements

Closing Procedures:

- ▶ Subsequent events review;
- ▶ Agreement of the final set of financial statements;
- ▶ Receipt of signed management representation letter; and
- ▶ Final Manager and Engagement Partner reviews.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion.



Executive Summary

Audit differences

At the date of this report we have identified:

Adjusted differences above our audit differences threshold of £0.55m

- A mis-coding error of grants and contributions, resulting in a £6m overstatement of creditors and £5.7m overstatement of debtors.
- A mis-coding error of £2.1m between income and expenditure (increasing both income and expenditure).
- A mis-coding error of a 2019/20 provision reversal, between income and expenditure (reducing both income and expenditure).
- A mis-classification error of £3.8m between creditors and receipts in advance.
- A creditor overstatement of £2m impacting expenditure reserves balances.
- A mis-classification error of £7.4m between debtors and creditors.
- A calculation error of £31.4m concerning the re-negotiated PFI scheme.

There are no unadjusted differences at the time of writing this report. Full details are included in Section 03 of this report.

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 as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the 2020/21 financial statements of Northamptonshire County Council. 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.

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
- ▶ 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 and Governance Committee or Management.

Control observations

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 smoother.

During the audit, we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. Section 06 provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2020/21 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.

Independence

Please refer to Section 07 for our update on Independence.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Following consultation with the National Audit Office, we are intending to reflect the particular circumstances of the Council as a demised body and our commentary will highlight, as appropriate, specific observations applicable to the County Council.

Status of the audit - Value for Money

In the Audit Plan we reported that we had completed our preliminary value for money (VFM) risk assessment and identified two areas of focus concerning arrangements in place in respect of Children's Services and Risk Management. In Section 04 we have detailed the procedures we have undertaken to address these risks.

At the date of this report we have yet to complete our planned procedures.

We plan to complete our planned VFM procedures by 28 April and will report to the Council the outcome on our consideration as to whether there are any significant weaknesses in the Council's VFM arrangements. We will then also issue our audit certificate and VFM commentary in the Auditor's Annual Report.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

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

What is the risk?

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

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

The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately classify expenditure as capital where it should be revenue in order to reduce their expenditure:

- Accruals near year end.
- Journal entries intended to re-classify expenditure from revenue to capital.
- The routine classification of expenditure posted during the year as capital.

What did we do?

- For significant additions, we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- We extended our testing of items capitalised in the year by lowering our testing threshold. We also reviewed a larger random sample of capital additions below our testing threshold.
- We used our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

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



Areas of Audit Focus

Significant risk

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

What is the risk?

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

By incorrectly classifying expenditure as REFCUS, the Council could improve the reported revenue position.

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately classify expenditure as capital where it should be revenue in order to reduce their expenditure:

- Accruals near year end;
- Journal entries intended to re-classify expenditure from revenue to capital.
- The routine classification of expenditure posted during the year as capital.

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.



Areas of Audit Focus

Significant risk

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

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 2020/21 financial year is borne by the successor bodies.

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

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately omitted accruals or post overstatements:

- Postings either side of the year end.

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:

- Extended our cut-off procedures to ensure items of expenditure is 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;
- Extended our testing of unrecorded liabilities.

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. Our testing has not identified any exceptions.

Our testing of unrecorded liabilities has not identified any liabilities which have been omitted from the 2020/21 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.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK) 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 perform mandatory procedures to address the general risk of fraud, regardless of specifically identified fraud risks. These include:

- 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.
- 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 06. These generally relate to difficulties in obtaining information to support journals. We have not however 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.



Areas of Audit Focus

Significant risk

Valuation and accounting treatment of One Angel Square

What is the risk?

The Council completed the construction of a new purpose built headquarters building in the centre of Northampton in 2017. It subsequently completed a sale and leaseback of this asset on 18 April 2018, with the asset valued at fair value at 31 March 2019.

The Council have revalued One Angel Square during 2020/21. The valuation approach has been changed to Depreciated Replacement Cost, which is typically applied for specialised operational assets for which an active market does not exist.

We have identified a risk concerning the valuation of One Angel Square as this is a significant asset for the Council with a material value and the valuation approach has changed.

What judgements are we focused on?

We focused on the change in valuation methodology between years.

What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of One Angel Square:

- Work with our internal valuation specialists to assess the reasonableness of the valuation, including:
 - Understanding the scope of the work performed by management's specialist;
 - Evaluating the qualifications, experience and independence of the specialist;
 - Evaluating the reasonableness of the methodology applied in the valuation;
 - Testing significant assumptions and inputs;
 - Evaluating the overall reasonableness of the valuation; and
 - Test accounting entries have been correctly processed in the financial statements.

What are our conclusions?

We challenged the Council's application of the depreciated replacement cost (DRC) revaluation methodology as the asset is recognised on the balance sheet as a finance lease asset. The Cipfa code requires non current assets recognised through a finance lease to be valued as the lower of fair value or net present value of leave payments. The Council agreed the DRC methodology was not correct and engaged their valuation specialist to prepare a new valuation report.

Our internal valuation specialists are currently reviewing the revised valuation report. The revised report has been prepared on a freehold basis rather than leasehold, management will need to correct the valuation basis.



Audit risks

Other areas of audit focus

What is the area of focus?

Valuation of property, plant and equipment, including investment property

The fair value of land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We will specifically focus on assets where a higher degree of estimation uncertainty exists; which for Northamptonshire County Council is those assets valued in year 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?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation;
- 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 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 2020/21 to confirm that the asset base not subject to in year 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.

What are our conclusion?

We have not identified any issues in our work on the valuation of land and buildings including investment property.



Audit risks

Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusion?
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p> <p>ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<ul style="list-style-type: none">➤ Liaised with the audit team of the Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Northamptonshire County Council. Note that the audit of the Pension Fund is also performed by EY;➤ Assessed the work of the Pension Fund actuary (Hymans Robertson), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;➤ Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and➤ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.	<p>We have completed our review of the actuary, accounting entries and disclosures and have not identified any issues.</p> <p>Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.</p>



Audit risks

Other areas of audit focus

What is the area of focus?

Going Concern

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.

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

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.

What are our conclusion?

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 not yet completed our work across Northamptonshire to consider whether service provision can continue at similar levels after the 1st April 2021 and for the period of the going concern assessment.



Audit risks

Other areas of audit focus

What is the area of focus?

Private Finance Initiative

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 2021 is £992 million. 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.

The Council renegotiated the Shaw PFI contract during 2020/21. We understand the initial contract included provision of social care services; this element has been removed on renegotiation.

Transfer to Northamptonshire Children's Trust

In 2019, Northamptonshire County Council Children's Social Care services were placed under a "Direction" by the Department for Education for the Council to work with the Secretary of State for Education and/or the Children's Services Commissioner towards the establishment of a council wholly-owned Children's Trust.

Northamptonshire Children's Trust was established on the 1st November 2020 to deliver Children's Social Care services on behalf of the Council.

For 2020/21, the ownership of the Children's Trust is retained by the County Council.

There is a risk that the accounting for the transfer of services from the standalone County Council financial statements and the subsequent consolidation of the Children's Trust into County Council Group Financial Statements, could be misstated.

What did we do?

- Confirmed our understanding of the process of how the PFI models are maintained and updated, including how the output of the models are included within the Council's financial statement closing processes;
- Identified those inputs to the model which are estimates and undertook audit procedures to gain assurance over the reasonableness of these estimates;
- Engaged EY's internal specialists to review the change to the Shaw 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.

- Reviewed the accounting for the transfer of the Trust and any associated assets and liabilities;
- Assessed and reviewed the procedures in place to prepare consolidated group financial statements; and
- Tested the transactions performed as part of the consolidation and review the presentation of required disclosures.

At the time of writing our provisional audit plan, the Children's Trust had not appointed an external auditor. An external auditor has now been appointed. We have been liaising with the external auditors of NCT, and have issued them with instructions that detail the required audit procedures they are to undertake on the consolidation schedules prepared by NCT.

What are our conclusion?

We have completed audit procedures on the PFI contracts that have not changed in 2020/21 and have not identified any issues. Our internal specialist is currently reviewing the change to the Shaw PFI model to ensure the inputs and accounting are in line with our expectations.

At the date of writing this report we are waiting for:

- group reporting forms from NCT's external auditor following the completion of their procedures; and
- a technical paper from the Council concerning the accounting treatment of IAS19 pension liability for NCT staff.



Audit risks

Other areas of audit focus

What is the area of focus?

Accounting for covid related Government grants

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

Accounting for infrastructure assets (new risk)

Infrastructure non-current assets are carried in the Balance Sheet at depreciated historic cost.

Where the subsequent expenditure represents the replacement of a component, the old component must be written out of the Balance Sheet.

A sector wide issue has been identified that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned.

What did we do?

Our approach focussed on:

- ▶ Reviewing the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;
- ▶ Reviewing whether any initial conditions are attached to grants impacting their recognition;
- ▶ Assessing whether the accounting appropriately follows those judgements; and
- ▶ Checking the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Our approach focussed on:

- ▶ Discussing the procedures applied by the authority to ensure the subsequent capital spend is recognised in accordance with the Code;
- ▶ Obtaining evidence to match the subsequent expenditure to the carrying amount of the replaced part or component that is being derecognized;
- ▶ Where the carrying amount of the replaced part or component cannot be identified, testing the authority's use of the cost of the replacement as a proxy for the deemed carrying amount of the replaced part, ensuring the calculation appropriately adjusts the cost for depreciation and impairment; and
- ▶ Considering whether any additional disclosure of material estimation uncertainty is required.

What are our conclusion?

We have not completed our work in this area.

Our work to date identified a control weakness concerning the Council obtaining confirmation from grant recipients that funding had been correctly used. This is a condition attached to the grant. The total value of the grants is £18 million.

The Council is carrying out further work to demonstrate that the grants were used for the purposes intended and are not therefore owed back to the Government Department. If the Council is not able to support compliance with grant conditions, a creditor will need to be raised in the financial statements for amounts owed back to the Department.

We have not completed our work in this area.

The Council are currently reviewing asset records to determine options to address the issue. The options include calculating the value of subsequent expenditure on replaced parts or components, so that an adjustment can be made to derecognize that element. The calculation may need to go back to the 2010/11 financial year.

The other option is to wait until the CIPFA working party has reviewed and confirmed what action they intend to take in relation to the CIPFA Code requirements.

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large wall of digital screens. The screens display various financial data, including line graphs with green and orange lines, and tables of data. The background is a dimly lit room with blue ambient lighting.

03 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 £0.55m which have been corrected by management that were identified during the course of our audit:

- A mis-coding error of grants and contributions, resulting in a £6m overstatement of creditors and £5.7m overstatement of debtors .
- A mis-coding error of £2.1m between income and expenditure (increasing both income and expenditure)
- A mis-coding error of a 2019/20 provision reversal, between income and expenditure (reducing both income and expenditure).
- A mis-classification error of £3.8m between creditors and receipts in advance.
- A creditor overstatement of £2m impacting expenditure reserves balances.
- A mis-classification error of £7.4m between debtors and creditors.
- A calculation error of £31.4m concerning the re-negotiated PFI scheme.

There were no uncorrected misstatements at the date of this report.

In addition, there have been 44 adjustments to disclosure notes.



04

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

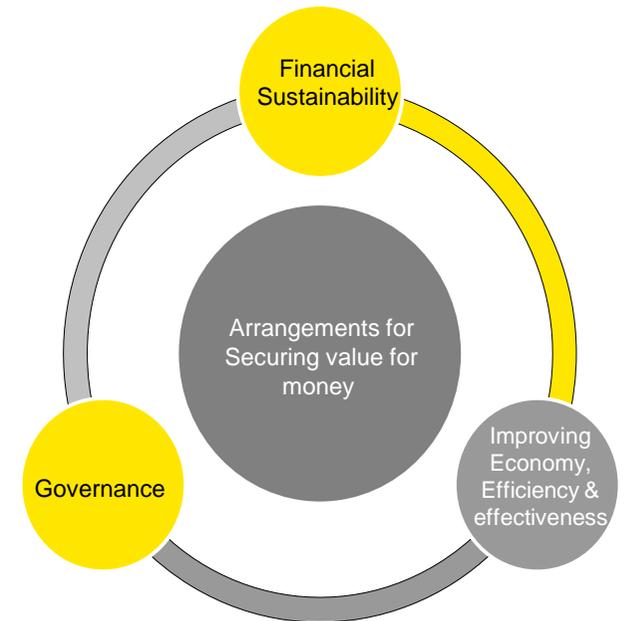
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

In our audit plan we reported to the Committee that we had completed our preliminary VFM risk assessment and identified two areas of focus around arrangements in place in respect of children's services and risk management, both areas were qualified our VFM conclusion in 2019/20:

- **Children's Services** - 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 vfm work for the year ended 31 March 2021 has therefore focussed on progress to address the weaknesses in Children's Services during 2020/21, including the Council's arrangements to established and monitor the delivery of Children's social care services by the Northamptonshire Children's Trust.
- **Risk management** - The Council had a history of weaknesses in its risk management framework. We concluded, in 2018/19 and 2019/20, that there were significant weaknesses in arrangements and qualified our value for money conclusion in this respect. Our vfm work has focussed on how the Council addressed risk management weaknesses identified in 2019/20, specifically maintenance of risk registers, controls intended to address the risks, and training provided to staff on the risk management framework.

We completed our detailed VFM planning and revisited our risk assessment at the execution stage of the audit and have not identified any additional risks.





Value for money

Status of our VFM work

At the date of this report we have yet to complete our planned procedures.

We plan to complete our planned VFM procedures by 28 April and will report to the **Council** the outcome on our consideration as to whether there are any significant weaknesses in the **Council's** VFM arrangements. We will then also issue our audit certificate and VFM commentary in the Auditor's Annual Report.



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 must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 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 2020/21 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.

Whole of Government Accounts

In addition to our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Other reporting issues

Other reporting issues

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.

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 [Authority]’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;
- Consideration of laws and regulations; and
- Group audits

There are still legacy issues faced by the closedown team in retrieving documents to support audit questions, but 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 06 provides an overview of the ‘high’ ‘moderate’ and ‘low’ rated observations we have from the 2020/21 audit. We will provide a more detailed report to management which includes commentary on the issues identified and a follow-up of issues presented to previous committees.



06

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.

At the time of writing this report we have not concluded our work in this area. We will provide more detail in a final audit results report.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2020/21 audit. 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	4	8	1	13
Observations noted in 2020/21	TBC	TBC	TBC	TBC
Issues closed in 2020/21 relating to 2019/20	3	3	-	6
Number of open observations at the conclusion of the audit	TBC	TBC	TBC	TBC

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.



07

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated January 2022.

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 which you should review, as well as us. It is important that you and your Audit and Governance 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 and Governance Committee on 28 April 2022.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors 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 01 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

Below 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.

We confirm that none of the services listed in have been provided on a contingent fee basis.

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.

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Statutory Audit Fee	105,998	105,998	105,998
Changes in work required to address professional and regulatory requirements and scope associated with risk	TBC	TBC	TBC
Total audit	TBC	TBC	TBC

For the 2018/19 audit, we agreed with PSAA that we would agree an amended scale fee to reflect the level of additional risk in the audit. We have calculated this amended scale fee based on the overall level of increased risk as well the specific risks we identified. Based on the level of risk identified and difficulties encountered we submitted the fee to PSAA for their approval; this was done following agreement with the Council Section 151 Officer and Commissioners. PSAA have recently approved an additional fee of £691k.

For 2019/20 and 2020/21, we will follow the same process. Our work on the 2019/20 financial statements, indicated that less time will be required to complete the 2020/21 audit than in 2018/19. Due to the quick turnaround between the completion of the 2019/20 and commencement of the 2020/21 audits, and delay in approval of the 2018/19 fee, we are yet to finalise our fee proposals for 2019/20, but will update management on this area as soon as possible. We will submit a fee variation for 2020/21 once our audit is complete and will keep officers and the Committee updated on this process.

Other communications

EY Transparency Report 2021

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 2021:

https://www.ey.com/en_uk/about-us/transparency-report-2021

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, orange, blue, white) and sizes, each containing stacks of papers. The background shows the perforated metal of the cabinet shelves.

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.

Balance sheet category 	Current Year Audit Approach	Prior Year Audit Approach 	Explanation for change 
<ul style="list-style-type: none"> ▶ Property, plant and equipment ▶ Investment property ▶ Long term debtors ▶ Assets held for sale ▶ Cash and cash equivalents ▶ Short term debtors ▶ Bank overdraft ▶ Short term creditors (incl Receipts in advance) ▶ Short and long term borrowings ▶ Short and long term provisions ▶ PFI liability (short and long term) ▶ Liability related to Defined Benefit Pension Scheme ▶ Capital grants received in advance ▶ Useable and unusable reserves 	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
<ul style="list-style-type: none"> ▶ Intangible assets ▶ Heritage assets ▶ Long term investments ▶ Inventories 	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A

Appendix B

Summary of communications

Date 	Nature 	Summary 
January 2022 to April 2022	Meeting	The Audit Partner met with the Executive Director of Finance to discuss the Council's strategy and performance, and the audit plan.
January 2022	Meeting/Report	The Audit Partner and Audit Manager met virtually with the Audit and Governance Committee and senior members of the management team to present the Audit Plan. Our report included confirmation of independence.
April 2022	Meeting/Report	The Partner and Audit Manager met virtually with the Audit and Governance Committee and senior members of the management team to discuss the Audit Results Report (ISA260).

In addition to the above specific meetings and letters the audit team met with the management team on a weekly basis throughout the audit to discuss audit 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 and Governance 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 Plan - presented to the Audit and Governance Committee on January 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - presented to the Audit and Governance Committee on January 2022
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report presented to the Audit and Governance Committee on April 2022

Appendix C – continued

		Our Reporting to you
Required communications	 What is reported?	  When and where
Major Local Authorities	<p>For the audits of financial statements of major local authorities our written communications to the Audit and Governance Committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	<p>Audit Plan - presented to the Audit and Governance Committee on January 2022</p> <p>Audit Results Report presented to the Audit and Governance Committee on April 2022</p>

Appendix C – continued

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about the Council’s ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> ▶ 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 	Audit Results Report presented to the Audit and Governance Committee on April 2022
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report presented to the Audit and Governance Committee on April 2022
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ 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 Authority any identified or suspected fraud involving: <ol style="list-style-type: none"> 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 and Governance Committee responsibility. 	Audit Results Report presented to the Audit and Governance Committee on April 2022

Appendix C – continued

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 Authority 	Audit Results Report presented to the Audit and Governance Committee on April 2022
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan - presented to the Audit and Governance Committee on January 2022</p> <p>Audit Results Report presented to the Audit and Governance Committee on April 2022</p>

Appendix C – continued

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit and Governance 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 and Governance Committee may be aware of 	Audit Results Report presented to the Audit and Governance Committee on April 2022
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report presented to the Audit and Governance Committee on April 2022

Appendix C – continued

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report presented to the Audit and Governance Committee on April 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report presented to the Audit and Governance Committee on April 2022
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor’s report 	Audit Results Report presented to the Audit and Governance Committee on April 2022
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the Audit Plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	<p>Audit Plan - presented to the Audit and Governance Committee on January 2022</p> <p>Audit Results Report presented to the Audit and Governance Committee on April 2022</p> <p>Annual Audit Report - TBC</p>

Appendix D

Outstanding matters

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

Item 	Actions to resolve 	Responsibility 
PPE - valuation of OAS	EY Real Estate specialist review of the Council's valuation report	EY
PFI	EY specialist review of renegotiated Shaw PFI contract	EY
Pension scheme liabilities	Council to determine accounting treatment in the Council's single entity accounts for the Children's Trust pension liability.	Management
Covid grant income	Council to provide evidence to support conditions applied to grant funding, or confirmation from funding department that no sums will be reclaimed.	Management
Group procedures	Complete group procedures including receipt and review of group reporting procedures from the component auditor for the Children's Trust. Review of component auditor file.	Management, component auditor and EY
Going Concern	Updated going concern disclosure to reflect budget setting and latest cashflow forecast.	EY and Management
Value for money	Review and conclusion	EY
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and Management
Management Representation Letter	Receipt of signed management representation letter	Management
Agreement of Final set of Accounts	Agree all changes made to draft accounts are updated in the final set of accounts.	EY and Management
Final Review Procedures	Final review of areas listed above	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion.

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Northamptonshire County Council ("the Group and Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Northamptonshire County Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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 consolidated and council financial statements taken as a whole. **We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].²**

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. *[When management is aware of the occurrence of non-compliance with laws or regulations, or has received allegations of non-compliance with laws and regulations.]* We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

Management representation letter

Management Rep Letter

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.³

5. *[When management is not aware of the occurrence of non-compliance with laws and regulations, and has not received allegations of non-compliance with laws and regulations]* We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.⁴
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
 3. We have made available to you all minutes of the meetings of the Group, and committees *[add the full title of the relevant committees]* (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]* and of the [Council], and committees *[add the full title of the relevant committees]* (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
 5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework]
 6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
 7. From the date of our last management representation letter 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

Management representation letter

Management Rep Letter

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

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and [council] financial statements.
2. We have informed you of all outstanding and possible litigation and claims, ~~whether or not~~ they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the consolidated and council financial statements all guarantees that we have given to third parties.
4. The claim by [name of claimant] have been settled for the total sum of XXX which has been properly accrued in the consolidated and [council] financial statements. No other claims in connection with litigation have been or are expected to be received.

E. Going Concern

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

F. Subsequent Events

1. Other than described in Note [X] to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group ~~unrealised~~ profits on transactions amongst [council], subsidiary undertakings and associated undertakings.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement.

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

I. Ownership of Assets

1. Except for assets recognised in accordance with IAS 17 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note [X] to the financial statements. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount ~~in excess of net realisable~~ value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note [X] to the consolidated and council financial statements, we have no other line of credit arrangements.

J. Reserves

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

K. 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 consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council 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, except as follows:
 - (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, *continue listing as appropriate*) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and [council] financial statements or as a basis for recording a loss contingency.
 - (2) Matters referred to in the letters dated [date] issued to you by the [Council]'s Monitoring Officer and the [Council]'s legal advisor.



Appendix E

Management representation letter

Management Rep Letter

(3) Matters referred to in the letter of comments received from the [name of regulator] regarding

(4)

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment valuations, Investment Property valuations, and Pensions IAS19 liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates (Property, Plant and Equipment, Investment Property, Provisions, and Pension Liabilities)

1. We confirm that the significant judgments made in making the accounting estimates have ~~taken into account~~ all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimate.
3. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimate.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

N. 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)

(Chair of the Audit and Governance Committee)

Appendix F

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	<p>Management should:</p> <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	<p>The Council needs to agree on certain policy choices. In particular:</p> <ul style="list-style-type: none"> ▶ Whether to adopt a portfolio approach ▶ What low value threshold to set and agree with auditors ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	<p>Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).</p>
Transitional accounting arrangements	<p>Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Ccouncil is a lessor, that were operating leases under the old standard.</p>
Ongoing accounting arrangements	<p>Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.</p>
Remeasurements and modifications	<p>Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.</p>

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