

**Northampton Borough
Council**

Audit Results Report

Year ended 31 March 2021

April 2022

DRAFT

Private and Confidential

April 2022



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

Dear Audit and Governance Committee Members

We are pleased to provide our provisional audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Northampton Borough Council for 2020/21.

We have completed a significant proportion of our audit of Northampton Borough Council ('the Authority or Council') for the year ended 31 March 2021. Subject to resolution of the outstanding matters listed in Appendix D, we are aiming to conclude the audit by 31 May 2022.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3. We also intend to include an Emphasis of Matter paragraph within our auditor's report highlighting disclosures within the financial statements of the demise of the Authority on 31 March 2021. In addition, we are reporting matters about the arrangements that were in place at Northampton Borough Council during 2020/21 to secure economy, efficiency and effectiveness in the use of resources.

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

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

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Audit and Governance Committee meeting on 28 April 2022.

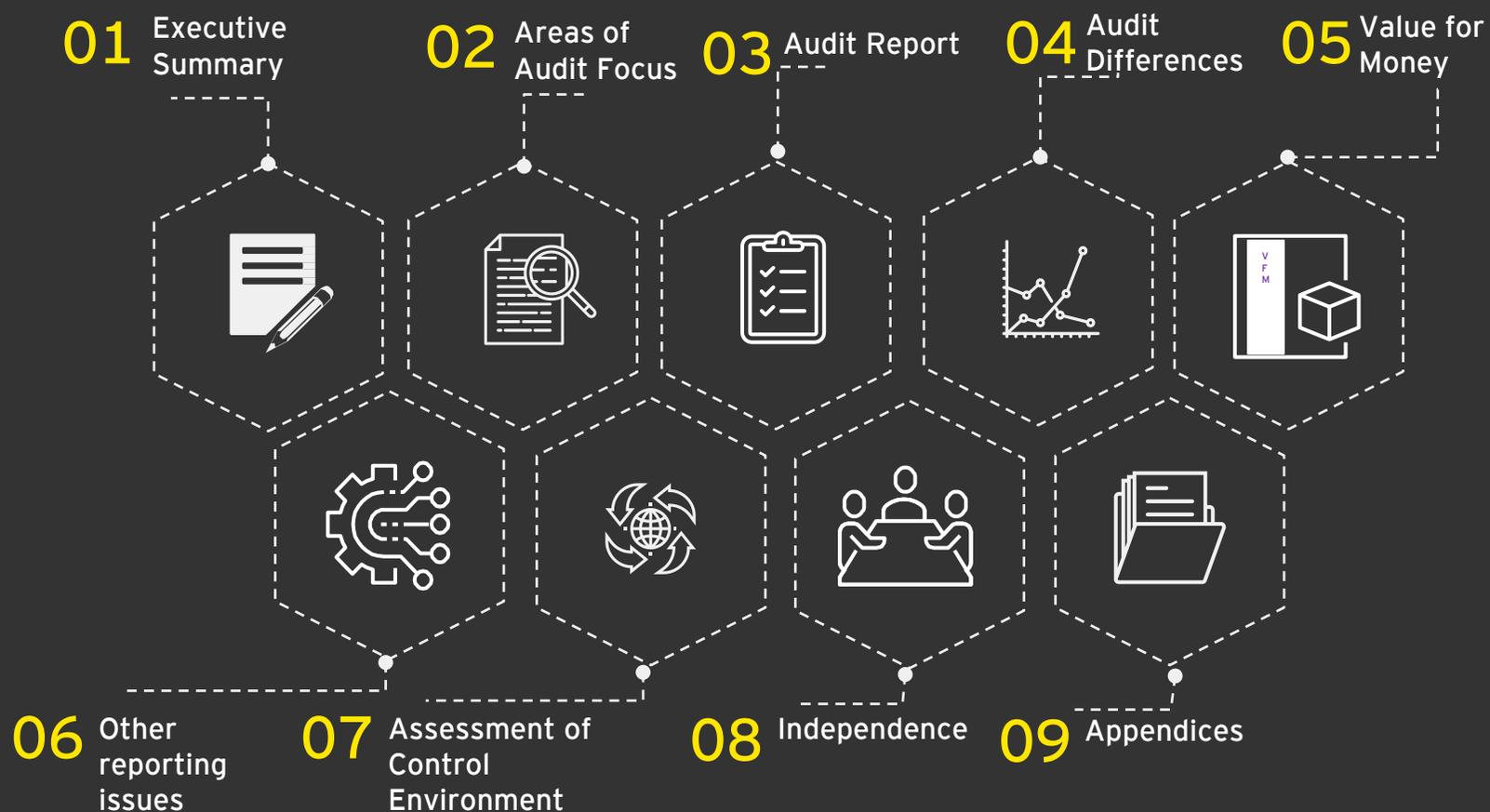
Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued a '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/>). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment 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 and Governance Committee and management of Northampton Borough 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 Northampton Borough 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 Northampton Borough Council for this report and 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 at the 10 November 2021 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan, with the following exceptions:

Changes in materiality

We revisited our planning materiality assessment using the draft statement of accounts. Based on our materiality measure of gross expenditure on provision of services, we updated our overall materiality assessment to £3.8m (£4.5m per the Audit Planning Report). This results in updated performance materiality at 50% of overall materiality of £1.9m (£2.2m per the Audit Planning Report), and an updated threshold for reporting misstatements of £0.19m (£0.2m per the Audit Planning Report).

The reduction in materiality was due to the £33m decrease in gross expenditure from 2019/20 to 2020/21, which largely related to PPE valuation movements.

Value for Money

In our Audit Planning Report, we indicated that we intended to reflect the particular circumstances of the Council as a demised body by providing a single commentary on arrangements covering all of the demised bodies whose functions were transferred to West Northamptonshire Council. It has since been clarified by the National Audit Office that auditors' commentaries on arrangements for demising bodies should focus on whether or not any significant weaknesses were identified at the demised body, but may also highlight any other findings that the auditor considers appropriate.

We have also subsequently assessed that it is more appropriate to provide separate commentary for each of the demised bodies whose functions were transferred to West Northamptonshire Council, and will therefore provide a specific commentary for Northampton Borough Council.

We are still to prepare our commentary, however it will include narrative on the matters described within section 5 of our report as we consider these to be significant weaknesses in the Council's arrangements.

Use of EY specialist

In our Audit Planning Report, we indicated that we would utilise EY Real Estate, our internal specialists on asset valuations, to review the Council's external valuer's valuation of a sample of assets identified as at higher risk of misstatement. Following further risk assessment of the Council's assets portfolio and the valuations used within the financial statements, we have determined that use of our internal specialists was not required,



Executive Summary

Status of the audit

Our audit work in respect of the Council opinion is well progressed however there are a number of significant areas to be completed before we can issue our opinion. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Investment property valuations
- Council dwellings valuations
- Land and buildings valuations
- Capital additions
- NNDR appeals provision
- Collection fund income
- Group financial statements
- Other income and other expenditure
- Other miscellaneous audit enquiries

Closing procedures:

- Going concern procedures
- Subsequent events review
- Agreement of the final set of financial statements
- Receipt of signed management representation letter
- Our internal review procedures to ensure audit quality

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix D.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures within the Statement of Accounts which could influence our final audit report. Subject to no further matters being identified which impact on our audit report, we propose to issue the audit report provided in section 3.

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.

Auditors' commentaries on arrangements for demising bodies are not required to provide a full commentary against the above criteria, however they should focus on whether or not any significant weaknesses were identified at the demised body and may also highlight any other findings that the auditor considers appropriate.

We are still to prepare our commentary, however it will include narrative on the matters described within section 5 of our report as we consider these to be significant weaknesses in the Council's arrangements.

Status of the audit - Value for Money

In the Audit Plan, we reported that we had completed our preliminary assessment of the Council against the revised criteria of the 2020 Code and have identified two risks of significant weakness in the Council's arrangements to secure value for money through economic, efficient and effective use of its resources during 2020/21. These risks were the deterioration of the internal control environment and the implementation of the Governance Action Plan. We have completed our planned procedures and have determined that there is a significant weakness in the Council's arrangements to secure value for money. We have also revisited our risk assessment on completion of the audit of the financial statements and have not identified any new risks of significant weaknesses in the Council's arrangements.

As a result of completing our planned value for money procedures, we will report by exception details of the significant weaknesses in our auditor's report (see section 3).

We are still to prepare our auditor's commentary on the Council's arrangements, however it will include narrative on the matters described within section 5 of our report as we consider these to be significant weaknesses in the Council's arrangements.

Executive Summary

Audit differences

We have to date identified 6 audit differences in the draft financial statements, however as our audit procedures are ongoing further audit differences may arise prior to conclusion of our audit. Towards the end of our audit, we will agree with management those audit differences which will be adjusted within the final financial statements and those which will remain unadjusted. We will then form our audit opinion based on assessment of the unadjusted audit differences and whether they are material to the financial statements. We will also request a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation.

Details of the audit differences identified to date can be found in Section 4.

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 matters to report as a result of this work.

We have no other matters to report.

Areas of audit focus

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

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

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

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



Executive Summary

Control Observations

During the audit we identified one observation in relation to management's financial processes and controls relating to the timing of assets being reclassified from assets under construction to other categories of PPE.

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

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

We also note that the Council's internal auditor reported a significant deterioration in the Council's internal control environment during 2020/21, and we consider this further within section 5 of our report.

Independence

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

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

What did we do?

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

What are our conclusions?

At the date of this report, we have not yet completed our work in respect of material accounting estimates (PPE and investment property valuations and the NNDR appeals provision).

Based on the work completed to date, we have not identified any material weaknesses in controls or evidence of material management override. We also have not identified any instances of inappropriate judgments being applied through our work on journal entries.



Areas of Audit Focus

Significant risk

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

What is the risk?

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

What judgements are we focused on?

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

What did we do?

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

What are our conclusions?

We have identified an overstatement of £496k of the amount released from the Capital Receipts Reserve to the Capital Adjustment Account to finance capital expenditure during 2020/21. This arose due to revisions to management's workings not being reflected consistently within the financial statements, and resulted in an understatement of usable reserves and an overstatement of unusable reserves of £496k.

We have no other matters relating to this risk to report, however our audit procedures remain ongoing most notably in relation to the testing of capital additions.



Areas of Audit Focus

Significant risk

Valuation of land and buildings, other than council dwellings and heritage assets

What is the risk?

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

For 2020/21, we exclude heritage asset land and buildings from the scope of our risk as our work over this area in the prior year found no issues and, in line with the Code of Accounting Practice, the Council chose not to revalue this class of asset in 2020/21. We have excluded council dwellings from the scope of this risk since 2019/20.

What judgements are we focused on?

The valuation of non-current assets is performed by an external valuer and relies upon significant estimation and assumptions. We focus our work on the appropriateness of the valuer's work and the assumptions used to value non-current assets.

What did we do?

- ▶ We considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ We considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for property, plant and equipment, and annually for investment property. We will also considered if there are any specific changes to assets that have occurred and whether these were communicated to the valuer;
- ▶ We reviewed assets that were not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ We tested the accounting entries relating to the valuation of non-current assets to ensure they had been correctly processed in the financial statements.

What are our conclusions?

We have identified an overstatement of investment properties of £212k relating to incorrect rental income information being used to inform the asset's valuation. This same error was made in 2019/20.

We have also identified that the Council has not revalued Victoria Promenade in the current year, contrary to the reporting framework requirement to revalue investment properties each year. We are still working with management to obtain assurance that the £5.2m recorded value would not have materially changed had the asset been revalued as at 31 March 2021.

We have identified that the Council's assets under construction balance included £8.7m of assets which were completed prior to 31 March 2021 and should have been reclassified to other categories of PPE. These relate to assets which will be carried at depreciated historic cost, therefore there is no misstatement of value, however by not reclassifying these assets the Council would not have commenced depreciating them from 1 April 2021 as it otherwise should.

We have no other matters relating to this risk to report, however our audit procedures remain ongoing including a number of queries in respect of specific asset valuations.



Areas of Audit Focus

Higher inherent risk

Pension liability valuation

What is the risk?

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

What did we do?

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

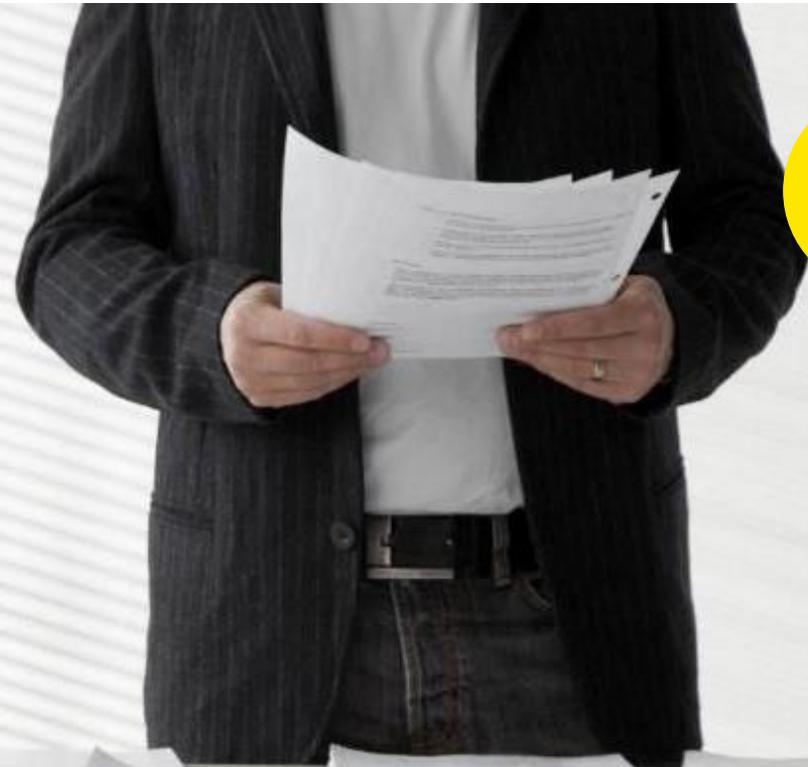
What are our conclusions?

Our review of the work of the Council's actuary, including the assumptions they have used, has not identified any matters to bring to your attention.

We note that the asset information originally provided by the Pension Fund to the actuary was based on expected returns for the final quarter which subsequently differed from the actual returns over this period. This fact was identified by management and a second report obtained from the actuary which reflected the actual return on the Pension Fund's assets up to 31 March 2021. This updated valuation was used in the draft financial statements, therefore no misstatement arose.

Our review of pension-related disclosures identified a number of disclosure matters, primarily relating to internal consistency and the impact on disclosures in the current year of an audit adjustment made in 2019/20, however these have all been addressed by management.

We have no other matters to report in respect of this risk. Our audit procedures relating to this risk are substantially complete, subject to our internal review procedures.



03 Audit Report



Audit report

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

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHAMPTON BOROUGH COUNCIL (DEMISED)

Opinion

We have audited the financial statements of Northampton Borough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Northampton Borough Council and the Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of matter - Local government reorganisation

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Executive Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.



Audit report

Our opinion on the financial statements (continued)

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 Group or Authority's ability to continue as a going concern for a period of *[TBC by going concern work]* from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Executive Director of Finance 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.

Other information

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

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:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- ▶ 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.

In respect of the following we have matters to report by exception:

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2021.

Governance Action Plan

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



Audit report

Our opinion on the financial statements (continued)

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

The Authority has been able to evidence limited further progress against the outstanding actions from the Governance Action Plan during the year to 31 March 2021. These relate to the Council's processes for approving significant new transactions and are therefore relevant to the Council's deployment of significant resources and its ability to ensure it achieves value for money from those resources.

We recommend that management of the successor body, West Northamptonshire Council, perform a review of the unresolved actions from the Governance Action Plan and consider the extent to which arrangements within the successor body may contain the same weaknesses. Where weaknesses are identified in the successor body, an improvement plan should be developed to address these.

This issue is evidence of weaknesses in proper arrangements for governance at the Authority.

Deterioration of the internal control environment

The Council's internal auditor undertakes an annual programme of work to provide assurance to the Authority that internal controls are designed and operating appropriately. The internal audit activity completed during the year to 31 March 2021 identified a significant deterioration in the internal control environment when compared to previous periods, with 44% of internal audit reviews able to offer no more than limited assurance over the design of controls and 56% of reviews able to offer no more than limited assurance over the effectiveness of controls.

The Authority has also been slow to respond to recommendations raised by internal audit during the year to 31 March 2021, with the Authority's internal auditor reporting in their annual audit opinion that "there have been instances of long delays in management responding to reports and some management responses that have not provided confidence that the issue would be addressed".

It has been acknowledged by both the Authority and its internal auditors that the competing pressures on management of managing the Authority and preparing for the transfer of functions to the successor West Northamptonshire Council on 1 April 2021 was a factor in the deterioration of the internal control environment.

Without a functioning internal control environment, there is an increased risk that the Authority undertakes actions or enters into transactions where it would not otherwise have done so, or fails to take actions it should have.

We recommend that management of the successor body, West Northamptonshire Council, undertake a review of the outstanding internal audit recommendations at the date the functions of Northampton Borough Council transferred to West Northamptonshire Council and ensure that the underlying weaknesses in the design and operation of internal controls were either not migrated to the successor body or have been satisfactorily addressed since the transfer of functions.

This issue is evidence of weaknesses in proper arrangements for governance at the Authority.



Audit report

Our opinion on the financial statements (continued)

Responsibility of the Executive Director of Finance

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 11, the Executive Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 Executive Director of Finance is responsible for assessing the Group and Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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 Authority and determined that the most significant are:
 - o Local Government Act 1972,
 - o Local Government and Housing Act 1989 (England and Wales),
 - o Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
 - o Local Government Act 2003,
 - o The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
 - o Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
 - o The Local Government Finance Act 2012,
 - o The Local Audit and Accountability Act 2014, and
 - o The Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.



Audit report

Our opinion on the financial statements (continued)

- ▶ We understood how Northampton Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and 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 Authority's committee minutes and through the inspection of employee handbooks 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 Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures 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 manipulation of reported financial performance through inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.
- ▶ To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- ▶ 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 specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Northampton Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Northampton Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

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

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

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



Audit report

Our opinion on the financial statements (continued)

Use of our report

This report is made solely to the members of Northampton Borough 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 Northampton Borough Council and Northampton Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janet Dawson (Key Audit Partner)

Ernst & Young LLP

London

[date]



04 Audit Differences





Audit Differences

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

Summary of audit differences

We have to date identified 6 audit differences in the draft financial statements, however as our audit procedures are ongoing further audit differences may arise prior to conclusion of our audit. Towards the end of our audit, we will agree with management those audit differences which will be adjusted within the final financial statements and those which will remain unadjusted. We will then form our audit opinion based on assessment of the unadjusted audit differences and whether they are material to the financial statements. We will also request a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation.

The audit differences identified to date are:

Misstatements impacting income and expenditure

- ▶ Our testing of grant income identified an overstatement of grant income and understatement of creditors of £735k relating to grant funding to be repaid to the Department for Levelling-Up, Housing and Communities. This amount was received in 2019/20 and correctly held as a at 31 March 2020 as it is to be repaid, however the amount was then incorrectly released to income during 2020/21 despite it remaining repayable. As the unspent element of this grant is held in earmarked reserves, there was a corresponding overstatement of earmarked reserves of £735k.
- ▶ Our testing of investment property valuations identified an overstatement of £212k relating to incorrect rental income information being used to inform the valuation of the Enterprise Zone. This same error was made in 2019/20.

Misstatements impacting classification on the Balance Sheet

- ▶ Our testing of debtor balances identified a creditor to the Department for Work and Pensions of £1,550k which had been incorrectly recorded as a reduction to debtors rather than as a creditor balance, resulting in an understatement of both debtors and creditors of £1,550k.
- ▶ Our testing of the Council’s reserves identified an overstatement of £496k of the amount released from the Capital Receipts Reserve to the Capital Adjustment Account to finance capital expenditure during 2020/21, resulting in an understatement of usable reserves and an overstatement of unusable reserves of £496k.
- ▶ Our testing of receipts in advance identified a balance of £463k relating to grants where the Council is acting as an agent and does not recognise the amounts received as income, or the associated costs as expenditure, within the financial statements. As the Council will not recognise this amount as income in a future period, it is incorrect to record it as a receipt in advance and the balance should be recorded as a creditor. There was therefore an overstatement of receipts in advance and understatement of creditors of £463k.



Audit Differences

Summary of audit differences (continued)

Misstatements impacting classification within notes to the financial statements

- ▶ Our testing of assets under construction identified that the Council's assets under construction balance included £8.7m of assets which were completed prior to 31 March 2021 and should have been reclassified to other categories of PPE. These relate to assets which will be carried at depreciated historic cost, therefore there is no misstatement of value, however by not reclassifying these assets the Council would not have commenced depreciating them from 1 April 2021 as it otherwise should.

Comments on disclosures

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

- ▶ Within the Narrative Statement, the disclosure of the Council's approved capital budget for 2020/21 was understated by £40.6m;
- ▶ The disclosure of the split of the Council's defined-benefit pension liabilities between funded and unfunded benefits overstated the unfunded liability and understated the funded liability by £10,057k. There was no impact on the total liability reported;
- ▶ The disclosure of the maturity profile of the Council's borrowings incorrectly allocated £9,141k of borrowings maturing between 1-2 years from the reporting date across the periods of 2-5 years and 5-10 years. The total amount of borrowings was correctly stated;
- ▶ The adjustments between accounting basis and funding basis presented within the Expenditure and Funding Analysis included misclassifications between directorates of £6,190k. The total value of adjustments was correct;
- ▶ We noted a number of inconsistencies and disclosure errors within financial instrument disclosures, arising primarily from inconsistent classification from the prior year as to which debtor and creditor balances should be regarded as financial instruments;
- ▶ The disclosure of external audit costs did not disclose the additional fees requested following conclusion of the 2019/20 audit.



05

Value for Money

Value for Money

The Council's responsibilities for value for money

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.

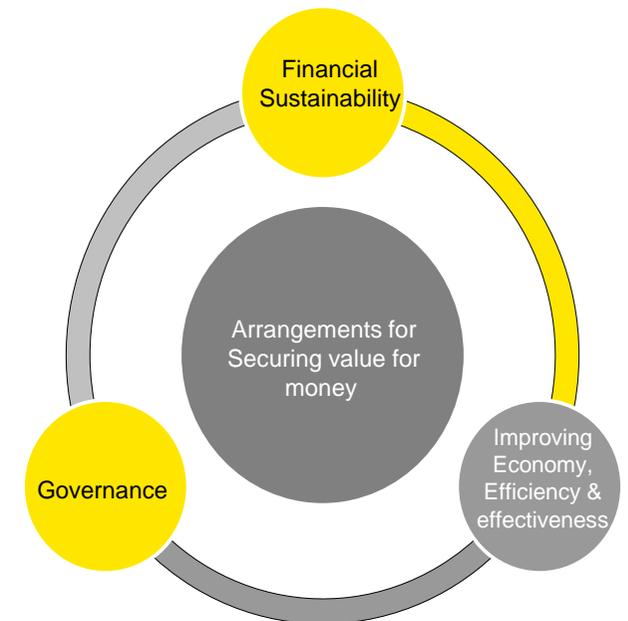
Risk assessment

We have previously reported to the Committee the outcome of our risk assessment of the risk of significant weakness in the Council's VFM arrangements - that we had identified two significant risks in relation to the deterioration of the internal control environment and the implementation of the Governance Action Plan.

We have revisited our risk assessment and have not identified any additional risks.

Status of our VFM work

We have completed our planned procedures and have determined that there is a significant weakness in the Council's arrangements to secure value for money. As a result we have reported by exception details of the significant weaknesses in the auditor's report (see section 3). We plan to issue our value for money commentary as part of issuing the Auditor's Annual Report.





Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Deterioration of the Internal Control Environment</p> <p>In their Annual Report and Annual Statement of Assurance, the council's internal auditor concluded that they were only able to issue a limited opinion over the council's arrangements for governance, risk and control during 2020-21. This was a decrease from the moderate assurance concluded for 2019-20.</p> <p>In addition, internal audit highlighted in their Annual Report and Annual Statement of Assurance a theme across a number of their reviews of the Council 'not having effective arrangements to oversee performance and see through actions' and concluded that 'some fundamental elements of governance and oversight were not operating effectively'.</p>	<p>Governance</p>	<ul style="list-style-type: none"> • Made enquiries of the council's internal auditor prior to the demise of the Council to understand further the background and context to internal audit's reported findings; • Made enquiries of management, to the extent possible given the demise of the council, as to management's understanding of any changes in the control environment during 2020/21; • Evaluated whether our observations from the above indicated that a material weakness in arrangements was present during 2020/21.

Findings

The Council's internal auditor has raised some significant concerns about both the design and the effectiveness of the Council's internal controls, with 4 of the 9 (44%) reports issued during 2020/21 unable to offer more than limited assurance over the design of controls and 5 of the 9 (56%) reports unable to offer more than limited assurance over the effectiveness of controls. Whilst management opted to focus internal audit's work on higher risk areas during 2020/21, these findings nevertheless led the Council's internal auditor to conclude *"there are key themes from our work which raise concern about the effectiveness of governance and oversight, particularly in relation to contract and project management"*.

It was also noted by the Council's internal auditor that management's response to the findings of internal audit was not always robust, observing *"there have been instances of long delays in management responding to reports and some management responses that have not provided confidence that the issue would be addressed"*.

It has been acknowledged by both management and internal audit that the competing pressures on management of managing the Council and preparing for the transfer of functions to the successor West Northamptonshire Council at the end of 2020/21 was a factor in the deterioration of the internal control environment during 2020/21. We are therefore unable to conclude that the Council had proper arrangements in place to secure value for money.

Recommendation(s)

We recommend that management of the successor body, West Northamptonshire Council, undertake a review of the outstanding internal audit recommendations at the date the functions of Northampton Borough Council transferred to West Northamptonshire Council and ensure that the underlying weaknesses in the design and operation of internal controls were either not migrated to the successor body or have been satisfactorily addressed since the transfer of functions.



Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Implementation of the Governance Action Plan</p> <p>In December 2016, the Council established a Governance Action Plan to address weaknesses in Council processes identified by investigations into the awarding of the loan to Northampton Town Football Club.</p> <p>Management adopted a less formal approach to addressing the remaining actions and formally closed the Governance Action Plan in September 2018 with several actions either outstanding or implemented in a manner which we were unable to conclude as embedded within the organisation.</p> <p>Our value for money opinion was qualified in 2019/20 as we were unable to conclude that the necessary improvements in governance and internal controls were fully embedded throughout the year ended 31 March 2020.</p>	<p>Governance</p>	<p>Our work over this risk during the 2018/19 and 2019/20 audits also covered the period to 31 March 2021, where we noted there was limited additional progress during 2020/21.</p> <p>Our approach therefore focused on:</p> <ul style="list-style-type: none"> • Confirming our understanding of the actions taken by management during 2020/21; and • Evaluating whether our observations indicate that a material weakness in arrangements was present during 2020/21.

Findings

We have confirmed through enquiries of management that steps taken by the Council during 2020/21 continued to be of a less formal nature. We also noted:

- The development of a due diligence manual, which was initially paused pending a wider review of the Council's constitution which concluded in November 2018, was not completed prior to the dissolution of the Council in March 2021; and
- The scope of the 'Licence to Practice Organisational Development and Training Plan' was amended to reflect management's updated assessment of the training needs of members and officers, however it remained under development when the Council was dissolved on 31 March 2021.

We are therefore unable to conclude that the Council had proper arrangements in place to secure value for money.

Recommendation(s)

We recommend that management of the successor body, West Northamptonshire Council, perform a review of the unresolved actions from the Governance Action Plan and consider the extent to which arrangements within the successor body may contain the same weaknesses. Where weaknesses are identified in the successor body, an improvement plan should be developed to address these.



06 Other reporting issues

Other reporting issues

Other reporting issues

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

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

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

Whole of Government Accounts

Alongside 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.

As at the date of this report, the National Audit Office have not yet issued their Whole of Government Accounts instructions to auditors for 2020/21 and the submission deadline for audited bodies to provide financial information to HM Treasury is not until 30 June 2022. We have not therefore not yet performed any procedures in respect of the Council's Whole of Government Accounts submission and no observations to report.

If the National Audit Office thresholds for detailed procedures by auditors remain as they were in 2019/20, we expect the Council to be below the thresholds at which detailed audit procedures over the Council's Whole of Government Accounts submission will be required. Until this is confirmed, we are however unable to issue our audit certificate.

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.

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

Other matters

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

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We consider the deterioration in internal controls during 2020/21 to be a significant deficiency in internal control and provide further details on this within section 5 of our report.

Due to the subsequent demise of the Council, we have not raised formal recommendations in respect of our other control observations however we wish to highlight the following matter which may be of interest to management of the successor West Northamptonshire Council:

- As described in sections 2 and 4, we noted material assets held at 31 March 2021 as assets under construction which had actually been completed prior to 31 March 2021. We would therefore encourage management of the successor body to consider the controls in place to identify when assets under construction are completed and to ensure that they are appropriately reclassified and accounted for at that point.



08

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 your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, 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 1st 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 following slide includes a summary of the fees that you have paid to us in the year ended 31st March 21 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed below has 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.

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 period to 2 July 2021:

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

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 10 November 2021.

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Audit and Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 28 April 2022.

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

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2021.

Description	Final fee 2020/21 £	Scale Fee 2020/21 £	Final Fee 2019/20 £
Base scale fee	62,197	62,197	62,197
Increase for changes in risk and regulatory environment [notes 1,3]	93,346	-	93,346
Revised Base Fee	155,543	62,197	155,543
Additional audit fee for response to specific audit findings [notes 2,3,4]	TBC	-	150,457
Total Audit Fee	TBC	62,197	306,000
Non-audit services	-	-	-
Total Fees	TBC	62,197	306,000

Notes on following page

Confirmation and analysis of audit fees

Note 1 - Scale Fee Variation

We wrote to management and the Northampton Borough Council Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice, are all shaping the future of local audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors. In continuing to respond to these factors we are required to seek higher levels of corroborative evidence, including increasing sample sizes and engage with our internal specialists more extensively and on a wider array of matters. Additionally, we need to continue to increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality. To support the increasing regulatory focus, we have to continue to invest in our audit quality infrastructure; for example our compliance costs have doubled over the past five years.

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

Where we identified significant risks and other areas of audit focus as part of our 2019/20 audit, as reported to the Audit and Governance Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. In addition, we have encountered challenges completing our planned procedures due to the availability of supporting evidence and the limited number of individuals remaining within the Council with knowledge of balances and transactions, which has increased the amount of audit effort required to complete our procedures. This work was over and above that assumed in the scale fee.

Note 3 - Agreement of audit fee (2019/20)

We have held discussions with management in respect of our audit fees for 2019/20 and will submit our proposals to Public Sector Audit Appointments (PSAA) and ask them to make a determination as to the additional fee to be charged.

Note 4 - Agreement of audit fee (2020/21)

We will seek to agree our final audit fee for our 2020/21 audit with management once our audit is concluded and the extent of additional work required fully known. The level of additional fee required for our response to specific audit findings will be dependent upon the level of effort required to conclude the outstanding matters listed in Appendix D, however we currently estimate this to be in the range £120,000 to £150,000.



09

Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from 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; and
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

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

Appendix B

Summary of communications

Date 	Nature 	Summary 
10/11/2021	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Audit and Governance Committee.
26/01/2022	Report	The audit team presented our Annual Audit Letter for our 2019/20 audit to the Audit and Governance Committee.
03/02/2022	Instructions	The audit team sent the group audit instructions to Mazars, as the external auditor for the Council's subsidiary Northampton Partnership Homes.
28/04/2022	Report	The audit team will present our Audit Results Report, including confirmation of our independence, to the Audit and Governance Committee.

In addition to the above specific meetings and reports, the audit team have met weekly with the financial statement closedown team throughout the audit period to discuss the arrangements for the 2020/21 audit, emerging findings, completion of our audit procedures and the status of our audit. We have also held ad-hoc meetings on specific audit matters, as required. Management of West Northamptonshire Council also attended these calls on occasion.

Prior to the dissolution of Northampton Borough Council on 31 March 2021, we also met with senior management of the Council to discuss the key issues known to be relevant to our 2020/21 audit, including the Council's implementation of the Governance Action Plan. Written enquiries were also made of senior management and the Northampton Borough Council Audit Committee at the end of March 2021 into matters relevant to our 2020/21 audit.

Appendix C

Required communications with the Audit and Governance Committee

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

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report (November 2021)
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <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; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)

Appendix C

Required communications with the Audit and Governance Committee

			 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 events or conditions constitute a material uncertainty related to going concern; ▶ Whether the use of the going concern assumption is appropriate in preparation and presentation of the financial statements; ▶ The appropriateness of related party disclosures in the financial statements. 	Audit Results Report (this report)	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Material misstatements corrected by management 	Audit Results Report (this report)	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> • Management; • Employees who have significant roles in internal control; or • Others where the fraud results in a material misstatement in the financial statements; ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected. ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report (this report)	

Appendix C

Required communications with the Audit and Governance Committee

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence; <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report (November 2021); and</p> <p>Audit Results Report (this report)</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit Results Report (this report)
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report (this report)
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report (this report)

Appendix C

Required communications with the Audit and Governance Committee

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components; ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components; ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work; ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted; ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Planning Report (November 2021); and Audit Results Report (this report)
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)

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 
Investment property, council dwellings and land and building valuations	Management to provide responses to remaining queries on individual asset valuations, including providing updated valuations where input data has been agreed as incorrect.	Management (to provide) EY (to review)
Capital additions	Management to provide responses to remaining queries on individual capital addition sample items.	Management (to provide) EY (to review)
NNDR appeals provision	Management to provide explanation for difference between financial statement balance and audited workings.	Management (to provide) EY (to review)
Collection Fund income	Management to provide an explanation for amounts included within the Collection Fund.	Management (to provide response) EY (to review and potentially select samples)
Group financial statements	Management to provide a response to queries arising from audit review of the consolidation of Northampton Partnership Homes.	Management (to provide) EY (to review)
Other income and expenditure	Management to provide responses to remaining queries on individual sample items of income and expenditure.	Management (to provide) EY (to review)
Other miscellaneous audit enquiries	We have a small number of other audit queries which we are still working with management to resolve.	Management / EY

Appendix D

Outstanding matters (continued)

Item 	Actions to resolve 	Responsibility 
Going concern procedures	We are considering going concern in the context of West Northamptonshire Council to provide coverage of each of the demised bodies, including Northampton Borough Council. This work is nearing completion, when a final disclosure will be agreed with management for inclusion in the Statement of Accounts.	EY (to complete procedures) Management (to update disclosure)
Subsequent events review	We perform subsequent events procedures, including further enquiries of management, up to the date of our auditor's report.	Management / EY
Agreement of the final set of financial statements	Management have implemented a large number of changes to the Statement of Accounts agreed during the audit, and remaining audit procedures may still give rise to further amendments. Management have provided us with a Statement of Accounts updated for the initial disclosure errors identified, and will provide a further updated Statement of Accounts once we have concluded our audit procedures and agreed all required changes with management. We will then need to review the updated Statement of Accounts to confirm changes have been made appropriately.	Management / EY
Receipt of signed management representation letter	We require the signed Letter of Representation from management and the Audit and Governance Committee before we can conclude our audit.	Management / Audit and Governance Committee
Our internal review procedures to ensure audit quality	We are still completing our internal review procedures and final documentation to ensure the quality of our work.	EY

Management representation letter

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

Management Representation Letter

[Date]

Ernst & Young
400 Capability Green
Luton
LU1 3LU

Dear Sirs,

This letter of representations is provided in connection with your audit of the consolidated and Authority financial statements of Northampton Borough Council ("the Group and Authority") 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 Authority financial statements give a true and fair view of the Group and Authority financial position of Northampton Borough Council as of 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with 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 Authority 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 Authority, our responsibility for the fair presentation of the consolidated and Authority financial statements. We believe the consolidated and Authority financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Authority 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 Authority financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Authority financial statements are appropriately described in the Group and Authority financial statements.
4. As members of management of the Group and Authority, we believe that the Group and Authority 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.

Management representation letter (continued)

Management Representation Letter (continued)

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

6. We confirm the Group and Authority does not have securities (debt or equity) listed on a recognised exchange.

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 Authority financial statements may be materially misstated as a result of fraud.

4. 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 Authority (regardless of the source or form and including, without limitation, 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 Authority'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 Authority's activities, its ability to continue to operate, or to avoid material penalties;
- ▶ involving management, or employees who have significant roles in internal controls, or others; or
- ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

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

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

Management representation letter (continued)

Management Representation Letter (continued)

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Authority'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 Authority 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 the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

7. From 25 November 2021 through the date of this letter we have disclosed to you any unauthorised access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

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

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

E. Going Concern

1. Note 1A to the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group and Authority'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 the transfer of the Authority's functions, services, assets and liabilities to West Northamptonshire Council described in Note 1Bv to the consolidated and Authority 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 Authority 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's subsidiaries 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 the Authority and subsidiary undertakings.

Management representation letter (continued)

Management Representation Letter (continued)

H. Other Information

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

I. Ownership of Assets

1. The Group and Authority has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Group and Authority's assets, nor has any asset been pledged as collateral. All assets to which the Group and Authority has satisfactory title appear in the balance sheets.

J. Reserves

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

K. Use of the Work of a Specialist

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

L. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in determining the valuation of non-current assets have taken into account all relevant information, including

the effects of the Covid-19 pandemic on real estate valuations, 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 determining the valuation of non-current assets.

3. We confirm that the significant assumptions used in determining the valuation of non-current assets appropriately reflect our intent and ability to carry out the Authority's plans 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 estimates, including those describing estimation uncertainty and the effects of the Covid-19 pandemic on real estate valuations, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in determining the valuation of non-current assets.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent entity financial statements, including due to the Covid-19 pandemic.

M. 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.

Appendix E

Management representation letter (continued)

Management Representation Letter (continued)

Yours faithfully,

Schedule of Unadjusted Audit Differences
[TBC upon completion of the audit]

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

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

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