Northampton Borough Council

Audit Results Report

Year ended 31 March 2019

March 2021

EY

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March 2021

Members of the Audit Committee
Northampton Borough Council
The Guildhall
St Giles' Square
Northampton
NN1 1DE

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Northampton Borough Council for 2018/19.

We have substantially completed our audit of Northampton Borough Council ('the Authority') for the year ended 31 March 2019.

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, before the financial statement publication date. 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 a number of matters about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the 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 Audit Committee meeting on 25 March 2021.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 6 February 2020 Audit 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.

Materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality in the range £972k to £1,942k, with performance materiality, at 50% of overall materiality, of £486k to £972k and a threshold for reporting misstatements, at 5% of overall materiality, of £48k to £96k. Our materiality thresholds were set at 0.5% to 1% of the Authority's gross expenditure on provision of services.

We concluded that use of thresholds set at 1% of gross expenditure on provision of services was appropriate and, following some minor amendment to the amount assessed as the gross expenditure on provision of services, performed our audit using a materiality of £1,905k, with a performance materiality, set at 50% of overall materiality, of £952k and a threshold for reporting misstatements, at 5% of overall materiality, of £95k.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems due to the need to complete the audit remotely as a consequence of the Covid-19 pandemic. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Status of the audit

We have completed a significant proportion of our audit of Northampton Borough Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the outstanding items set out in Appendix D, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. We 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. However until work is complete, further amendments may arise. We will provide a verbal update on these matters at the Committee meeting.

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

Executive Summary

Audit differences

We identified 3 unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is to increase the deficit on the provision of services by £1,120k. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of increasing the deficit on provision of services by £5,312k, and other audit differences not impacting the deficit on provision of services, which have been adjusted by management. Details can be found in Section 4 Audit Differences.

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 Committee.

Control observations

During the audit we identified a number of observations in relation to management's financial processes and controls. We identified findings in relation to:

- The provision of information to external valuers of non-current assets;
- The completeness and accuracy of the Council's leases database;
- The basis of recharges to the Housing Revenue Account; and
- The retention of support for Council Tax write-offs.

Given that the Authority will cease to exist on 31 March 2021, we have not made recommendations as to how management should seek to address our observations. We do, however, recommend that our observations are brought to the attention of the successor organisation, for their information and action where appropriate.

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

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

- The governance action plan;
- The football club loan; and
- Financial resilience

Our response to these risks is set out in detail in Section 5.

We have the following matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources:

- At 31 March 2018, the Authority had 6 actions from its Governance Action Plan which were not yet implemented. The Governance Action Plan was closed in September 2018 with 2 of these actions noted as outstanding. In addition, the management commentary on a number of completed actions noted that there were further actions required to fully implement the recommendations. We have reviewed management updates provided in September 2018 and January 2020 and concluded that 4 of the 6 actions outstanding at 31 March 2018 remained at least partially outstanding at 31 March 2019. We are therefore unable to conclude that the Governance Action Plan was fully implemented and embedded during 2018/19, and are therefore unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result, we will issue an adverse value for money opinion.

Except for the implementation of the Governance Action Plan, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.

02 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?

We note that a material level of misstatement was identified within the valuation of non-current assets, further details of which are provided on the following pages. We have considered the causes of these misstatements, along with the fact that misstatements were identified which both overstated and understated the valuation of assets, and are content that there was not a consistent management bias within these valuations towards either overstatement or understatement.

Our testing has also not identified any other misstatements arising from fraud or error, or other matters relating to this risk, to bring to your attention.

Note that details of misstatements identified during the course of our audit by other audit procedures are detailed in Section 4.

Significant risk

Misstatements due to fraud or error (additional considerations)

What is the risk?

During the course of our audit, we have held discussions with Northamptonshire Police in respect of their ongoing investigation into the football club loan. We have also read the KPMG public interest report, published on 27 January 2021, in respect of the loan. From these sources, we have identified additional factors which we consider to be relevant to the risk of misstatement due to fraud or error and requiring additional audit response.

What judgements are we focused on?

Our focus is on transactions which the Authority may have entered into in previous periods, including around the time of the football club loan when governance processes are known to have contained weaknesses, which are still impacting the financial statements.

What did we do?

- We reviewed minutes of the Council and Cabinet for the period from 1 April 2014 to 31 March 2018, and political party manifestos for the 2011 local government elections, for significant commitments by the Authority which could give rise to material balances still impacting the financial statements in 2018/19. Where such commitments were identified, we considered the treatment of balances still impacting the financial statements for reasonableness;
- We reviewed minutes of the Council and Cabinet for the period 1 April 2018 to 31 March 2019, and the Authority's published contracts register, to identify significant commitments entered into during 2018/19. For material projects, we reviewed evidence of the approval and due diligence processes performed prior to entering into the contract or agreement;
- We reviewed evidence of the Authority's assessment that the loan to the University of Northampton, issued in March 2016 and not due for repayment in 2018-19, was state aid compliant.

The above procedures included use of our EY Forensics specialists due to the complexity of the audit risk.

What are our conclusions?

Our review of Council and Cabinet minutes since 1 April 2014 and pollical party manifestos for the 2011 local government elections identified a number of proposals for significant commitments. We have investigated these further to either evaluate the accounting treatment in the 2018/19 statements or confirm the Council ultimately provided no funding. We have no issues to report from this work.

Our review of Council and Cabinet minutes during 2018/19 identified one significant new contract entered into by the Council during the year, to regenerate the old Vulcan Works site. As of submission of this report, our review of the approval and due diligence process for this project is ongoing and is noted as an outstanding item in Appendix D.

Our review of the Authority's assessment of state aid risks in respect of the loan to the University of Northampton found that state aid risks had been adequately considered and addressed prior to monies being advanced to the University.

We have no other observations to report in respect of misstatements due to fraud or error arising from the ongoing police investigation or the KPMG Public Interest Report.

Significant risk

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

What is the risk?

Under ISA (UK and Ireland) 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?

Misstatements that occur in relation to the risk incorrect capitalisation of revenue expenditure could affect the comprehensive income and expenditure account and the balance sheet by decreasing revenue expenditure and increasing capital expenditure.

What did we do?

- We sample tested additions to property, plant and equipment at a lower testing threshold to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- We reviewed and tested Revenue Expenditure Funded from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately funded from capital; and
- As part of our journal testing strategy, we reviewed unusual journals related to capital expenditure posted around the year-end, for example where the debit was to capital expenditure and the credit to income and expenditure.

What are our conclusions?

Our testing has not identified any misstatements arising from fraud in revenue and expenditure recognition, or other matters relating to this risk to bring to your attention.

Significant risk

Valuation of non-current assets

What is the risk?

The fair value of property, plant and equipment (PPE), investment properties (IP) and heritage assets represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings, surplus assets and investment properties in particular.

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 review assets that were not subject to valuation in 2018/19 to confirm the remaining asset base is not materially misstated;
- We considered changes to the useful economic lives of assets 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 encountered difficulty auditing the valuations of some non-current assets due to the Council being unable to provide the necessary explanations or obtain them from the external valuer who undertook the valuations (Avison Young), who we note ceased to be the Council's external valuer after the 2018/19 cycle. Where these difficulties could not be resolved, management had to seek revised valuations from the Council's current external valuer (Wilks Head and Eve). As we were unable to test the original valuations, differences between the original and revised valuations have been treated as audit differences.

Where we were able to complete our testing of asset valuations, we noted a number of issues including valuations based upon incorrect information (e.g. terms of existing tenancies and asset areas) and assets being incorrectly classified, resulting in the wrong valuation methodology being applied.

We also challenged management as to whether changes to the capital programme, arising from the local government reorganisation, should result in impairment of assets under construction. A £5.3m impairment was subsequently recognised.

In aggregate, we identified gross misstatement of £20.0m with a net impact on the balance sheet of overstating assets by £3.6m. Management have adjusted the financial statements for £19.0m of these misstatements, following which we are content non-current assets are not materially misstated.

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 auditors of the Northamptonshire Pension Fund to obtain assurance over the information supplied to the actuary in relation to Northampton Borough Council;
- We assessed the work of the Pension Fund actuary, including the assumptions they have used, by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors and review of this work by our own EY actuarial specialists;
- We reviewed the Northamptonshire Pension Fund's draft financial statements and compared the year end asset values with the estimate used by the actuary in producing the Authority's IAS 19 report and considered the impact on the Authority's pension fund liabilities and IAS 19 disclosures; and
- We reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS 19.

What are our conclusions?

The initial valuation of the Authority's net pension liability included the valuation of pension assets as at 31 December 2018, adjusted for cash movements between 31 December 2018 and 31 March 2019. The actual valuation of pension assets as at 31 March 2019 materially differed from this assumption, therefore management had the actuary revise their calculations. The revised calculations were prepared prior to, and reflected in, the draft financial statements presented for audit.

In addition, the valuation of the Authority's pension liabilities as at 31 March 2019 included the estimated impact of addressing age discrimination within the LGPS highlighted by the McCloud legal case.

On 16 July 2020, the Ministry for Housing, Communities and Local Government (MHCLG) published the proposed remedies for removing age discrimination from the LGPS for consultation. On 4 February 2021, MHCLG announced the final proposed remedies.

The valuation of scheme liabilities as at 31 March 2019 does not include the impact of the proposed remedies, as they were announced after the valuation was prepared. We have engaged our EY Pensions specialists to help us confirm that the impact of applying the proposed remedies would not be material to the Authority's pension liabilities.

We have no other matters to report in respect of this risk.

Higher inherent risk

IFRS 9 Financial Instruments / IFRS 15 Revenue from contracts with customers

What is the risk?

New accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, are effective for 2018/19 and introduce significant changes to the accounting treatment and financial statements disclosures in respect of financial instruments and revenue. Management will need to ensure the financial statements comply with the new standards.

What did we do?

- We assessed the authority's implementation of the new accounting standards, including management's assessment of the impacts of the new standards on the Authority's and Group's financial statements;
- We reviewed the classification and valuation of financial instruments;
- We reviewed management's determination of expected credit losses, a new approach under IFRS 9 to the recognition of impairments;
- We considered the applicability of the new revenue standard to the authority's revenue streams, and where the standard applies performed sample testing to ensure that revenue had been recognised in accordance with the new standard; and
- We reviewed financial statement disclosures for consistency with the new standards.

What are our conclusions?

The financial instrument disclosures within the draft financial statements presented for audit did not reflect the requirements of the new standard, for example by continuing to use the financial instrument classifications of the previous standard.

Management have subsequently revised the financial instrument disclosures to ensure they are consistent with the new standard.

In addition, we noted several misstatements within financial instrument balances which were not specifically related to the adoption of the new standard. Further details of these audit differences are given in Section 4.

We have no matters to report in respect of the application of IFRS 15.

Other matters

Contract and procurements

What is the risk?

The Council incurs material annual expenditure under contracts with third parties. A risk of misstatement arises from the risk that these contracts are not appropriately accounted for, including the risk of omission or that amounts are recorded in the incorrect period.

What did we do?

- We have obtained and read significant contracts, agreements, and similar documents and considered their accounting or auditing implications;
- We have undertaken sample testing to confirm the correct procurement processes were followed; and
- We have analysed the results of our expenditure testing and considered whether this indicates that contract registers may not be complete.

What are our conclusions?

We have no matters to report in respect of contracts and procurements.

03 Audit Report

Audit report

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

Given our intention to qualify our value for money opinion, there are additional internal consultation processes in respect of our audit opinion which we need to conclude. Any changes to our audit report as a result of this consultation will be communicated to the Audit Committee.

Audit report

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

Opinion

We have audited the financial statements of Northampton Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement;
- Authority and Group Comprehensive Income and Expenditure Statement;
- Authority and Group Balance Sheet;
- Authority and Group Cash Flow Statement;
- The related notes 1 to 33 to the Authority financial statements and 1 to 12 to the Group financial statements;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Balance Statement and the related notes 1 to 6; and
- Collection Fund Statement 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Northampton Borough Council and Group as at 31 March 2019 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 2018/19.

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 the disclosures made in Note [TBC] – Events after the balance sheet date, concerning local government reorganisation in Northamptonshire. As stated in this disclosure, a new council called West Northamptonshire Council [will replace/replaced] the Authority and [other existing local councils/[names]] in Northamptonshire in April 2021. The Authority's assets, liabilities, services and functions transferred to the new West Northamptonshire Council on 1 April 2021.

Audit report

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion [wording subject to internal consultation]

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.

In response, the Authority produced a Governance Action Plan containing a number of actions to address the governance and internal control issues raised. At 1 April 2018, 6 of the 48 actions from this plan were at least partially outstanding.

During 2018/19, management have adopted a less formal approach to addressing the remaining actions and have formally closed the Governance Action Plan in September 2018. As at 31 March 2019, several actions were either outstanding or implemented in a manner which we are unable to conclude as embedded within the organisation.

We are therefore unable to conclude that the necessary improvements in governance and internal controls were fully embedded throughout the year ended 31 March 2019 and that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people during this period.

Audit report

Qualified conclusion [wording subject to internal consultation]

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are not satisfied that, in all significant respects, Northampton Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 15, the Chief Financial Officer 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Audit report

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2019.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Northampton Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

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 the 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 (Local Auditor)
London
March 2021

04 Audit Differences

Audit Differences

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

Summary of unadjusted differences

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

Misstatements impacting income and expenditure

- We noted an error in the calculation of the non-domestic rates appeals provision methodology which resulted in an overstatement of the appeals provision by £125,000. Correction of this misstatement would decrease expenditure and decrease provisions by £125,000;

- Our EY Real Estate valuation specialists disagreed with the valuations given by management's valuer for the Council's two hotel investment properties, which we believe to be understated by £995,000. Valuation of property assets is subjective therefore management have opted not to amend for this judgemental audit difference. Correction of these differences would increase investment property and reduce net expenditure by £995,000.

Misstatements impacting other comprehensive income and expenditure

- The auditor of the Northamptonshire Pension Fund identified misstatement in the valuation of the Pension Fund's assets provided to the actuary to inform the calculation of the Authority's net pension liability. They have estimated the impact to be an understatement of the Authority's net pension liability and the actuarial loss for the year of £290,000.

All unadjusted differences apply to both the Authority and Group financial statements.

Audit Differences

Summary of adjusted differences

We highlight the following misstatements of the Authority's financial statements which have been corrected by management:

Presentational misstatements

- The presentation of the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis did not reflect the restructuring of the Authority's directorates which took place during 2018/19. Correction of this matter resulted in significant changes to the allocation of income and expenditure to individual directorates within these statements, but had no impact on the overall amounts reported. The prior period comparatives have also been restated to reflect the current year's structure and provide comparability to the prior year;

- The amounts presented as other operating expenditure, financing and investment income and taxation and non-specific grants included recognition of amounts as both income and expenditure, overstating each individually but with no impact on net expenditure. Correction of this matter resulted in a decrease to gross expenditure and gross income of £39.9 million; and

- The year-end creditor balance with Northampton Partnership Homes of £2,747,000 was incorrectly recognised as both a debtor of £9,175,000 and a creditor of £11,922,000, resulting in the correct net liability but an overstatement of both debtors and creditors of £9,175,000.

Misstatements impacting income and expenditure

- In 2014-15, the Council demolished the old Greyfriars bus station and surrounding structures and, as permitted by accounting standards, recognised £5,312,000 of demolition costs within assets under construction as part of the cost of the new assets to be constructed at the site. Since the initial demolition, there have been several iterations of plans for the site however plans still remain in the early stages and no further costs have been recognised within assets under construction. Following audit challenge of the time lag between the original demolition and construction of the replacement assets and the uncertainty over future development introduced by the Northamptonshire Local Government Reforms announced during 2018/19, management have accepted the criteria to hold this balance as an asset under construction are no longer met and the asset has been impaired. This reduced property, plant and equipment and increased expenditure by £5,312,000.

Misstatements impacting other comprehensive income and expenditure

- Our testing of non-current assets identified a number of misstatements of individual asset valuations with a gross value of £13,702k and a net impact of understating asset valuations by £715,000. Management have adjusted these asset valuations resulting in an increase to asset valuations and the gain on revaluation for the year of £715,000.

- Due to an error in the recording of valuations within the non-current asset register, the valuation of heritage assets at 31 March 2019 and the revaluation gain during 2018/19 were overstated by £190,000.

- Investments in the CCLA Local Authorities Properties Fund were incorrectly valued using mid-market prices, when bid prices should be used for the purposes of the financial statements. Application of bid prices resulted in a decrease in the value of investments, and an increase in the loss recognised within other comprehensive expenditure, of £186,000.

Audit Differences

Summary of adjusted differences – Authority (continued)

Classification misstatements within the balance sheet and supporting notes

- During the course of our audit we identified a number of classification errors between lines on the balance sheet. The aggregate impact of correcting these errors was to:
  - Decrease long-term debtors by £35,000;
  - Increase short-term debtors by £47,000;
  - Increase cash and cash equivalents by £1,067,000;
  - Increase short term creditors by £1,138,000; and
  - Decrease provisions by £59,000

- Investments of £7,586,000 in the CCLA Local Authorities Property Fund (pre-adjustment as per previous page) were incorrectly recorded as non-current fixed term investments. These investments are investments into a pooled property fund, rather than fixed term investments, and have been reclassified as current investments.

- Expected credit losses of £9,295,000 were netted off against gross debtor balances rather than presented separately within the debtors note, as required by the reporting framework. This had no impact on the net debtor position recognised on the balance sheet, but understated gross balances and impairment allowances within the debtors note by £9,295,000.

Misstatements impacting reserves

- We have challenged management on the non-recognition of minimum revenue provision, the amount set aside from the Council's revenue budget for repayment of capital financing, in respect of the loan to Northampton Town Football Club given the significant uncertainty over recovery of loan amounts. Following this challenge, management has applied £4,655k of the £5,000k set aside from the General Fund during 2018-19 into the Sixfields Recovery Reserve as minimum revenue provision during 2018-19.

Misstatements impacting the Collection Fund and Balance Sheet

- Management determined that an appropriate provision for bad and doubtful debts at 31 March 2019 would be £981,000, however this amount was incorrectly recorded as the new amount provided during the year, rather than the closing balance. Correction of this matter resulted in a decrease to the Collection Fund provision for bad and doubtful debts of £328,000, a decrease to the Council's own provision for bad and doubtful debt of £131,000 (the Council's share of the £328,000) and an increase in the amounts owed to preceptors of £197,000 (other preceptors' share of the £328,000).

All adjusted differences, other than the overstatement of debtors and creditors in respect of the balance due to Northamptonshire Partnership Homes, apply to both the Authority and Group financial statements. The overstatement of debtors and creditors in respect of the balance due to Northamptonshire Partnership Homes applies to the Authority's statements only, as these balances are eliminated from the Group statements as intra-Group balances.

Audit Differences

Summary of prior period audit differences

Misstatements impacting the prior period

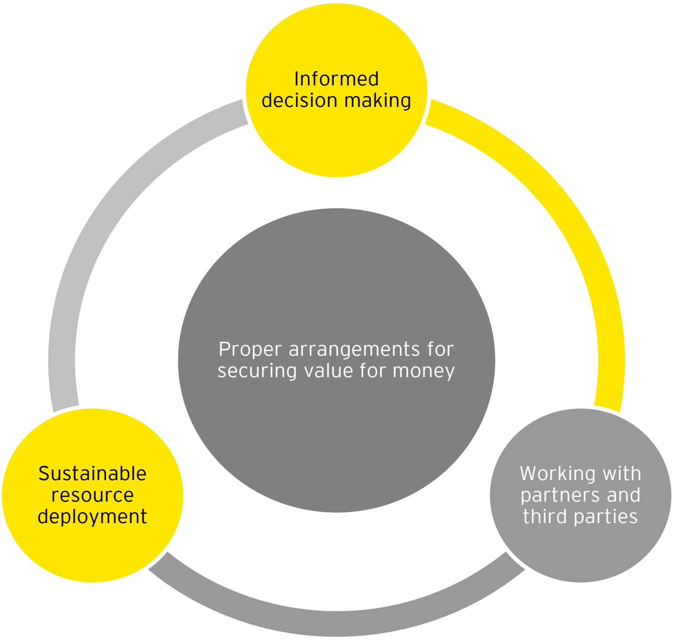
- During the course of our audit we identified an addition to property, plant and equipment of £320,000 which should have been recognised during 2017/18 as the addition took place prior to 1 April 2018. This has no impact on the valuation of property, plant and equipment at 31 March 2019, but indicates an understatement of property, plant and equipment as at 31 March 2018 presented in the prior year comparatives. As the matter is immaterial, correct accounting treatment is not to restate the prior period comparatives.

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. There are no individual observations on disclosures which we consider warrant the attention of the Audit Committee.

05 Value for Money

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified three significant risks around these arrangements. The tables below present our findings in response to the risks identified in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

At 31 March 2018, the Authority had 6 actions from its Governance Action Plan which were not yet implemented. The Governance Action Plan was closed in September 2018 with 2 of these actions noted as outstanding. In addition, the management commentary on a number of completed actions noted that there were further actions required to fully implement the recommendations. We have reviewed management updates provided in September 2018 and January 2020 and concluded that 4 of the 6 actions outstanding at 31 March 2018 remained at least partially outstanding at 31 March 2019. We are therefore unable to conclude that the Governance Action Plan was fully implemented and embedded during 2018/19, and are therefore unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result, we will issue an adverse value for money opinion.

Further details are provided on the following pages.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks identified in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Governance Action Plan The Council has a Governance Action Plan that was established in December 2016. The predecessor auditor reported that while good progress had been made, as of 31 March 2018 the plan had not been fully implemented in that year. This resulted in an adverse value for money conclusion.	Informed decision making	At 31 March 2018, the Council had implemented 42 of the 48 actions included within the Governance Action Plan and considered 5 of the remaining 6 actions to have been partially implemented. The six actions which had not been fully implemented prior to 2018/19 were all deemed to be high priority and included the establishment of a due diligence manual, delivery of the 'Licence to Practice Organisational Development and Training Plan' and delivery of a mandatory training programme on project programmes and major project competencies. Following new appointments to several senior posts within the Council during the first half of 2018, management undertook a review of the remaining elements of the Governance Action Plan and determined that aspects of the Governance Action Plan established in December 2016 no longer reflected the needs of the Council in 2018/19. A proposal to formally close the Governance Action Plan was presented to, and approved by, the Audit Committee in September 2018. At this point, management reported that 46 of the 48 actions had been fully implemented. We do however note that the additional management commentary provided to the Audit Committee for several completed actions noted that implementation was an ongoing progress and could take up to 18 further months to complete. With regards to the actions which were not fully implemented prior to the start of 2018/19, we noted the following: • **Establishment of a due diligence manual** Management reported in September 2018 that the first stage of this action, the development of a 'loans checklist', was complete and a checklist implemented. Development of the manual itself was however delayed pending a review of the Authority's constitution. Management noted in delaying development of the manual that the governance arrangements surrounding approval of loans had been made more stringent prior to development of the manual. The Council published its updated constitution in November 2018, however as of January 2021 the manual has still not been produced and, given the dissolution of the Authority in March 2021, is unlikely to be completed.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Governance Action Plan (continued)	Informed decision making	• **Delivery of mandatory training and development of the 'Licence to Practice Organisational Development and Training Plan' (links to 3 actions)** Following review of the training plans included within the Governance Action Plan, management determined that the needs of officers and members would be better served by more informal coaching sessions than the formal structured training included within the Governance Action Plan. A number of one-to-one coaching sessions were delivered to project managers during 2018/19, with a strong focus on the preparation of robust business cases. The 'Licence to Practice Organisational Development and Training Plan' is intended to reflect management's updated assessment of the training needs of officers and members, however development of this plan remains ongoing as of February 2021 and it is unclear to what extent it will be carried over to the new West Northamptonshire Council. • **Monitoring of Cabinet decisions, implementation and compliance thereof, including delegated decisions** At the point the Governance Action Plan was closed in September 2018, this action was reported as outstanding with management indicating that the processes for Cabinet decisions and reporting would be included as part of the wider review of the Authority's constitution. The Authority's revised constitution was published in November 2018 and included guidance on the taking and reporting of decisions by Cabinet. • **Production of the Annual Governance Statement in a timely manner** The Annual Governance Statement for 2018/19 was completed and signed off by the Leader of the Council and the Section 151 Officer on 24 July 2019. Our audit procedures, including the extent to which we are required to review the Annual Governance Statement, have not identified any significant concerns over this statement. Production of the Annual Governance Statement is an annual exercise, however we are content that management had appropriate arrangements in place for production of the 2018/19 statement. Management has continued during 2018/19 to build on the progress made against the Governance Action Plan in prior years, and formally closed the Governance Action Plan in September 2018. We do however note that there are significant elements of the plan which have not been implemented, most notably the development of a due diligence manual and the 'Licence to Practice Organisational Development and Training Plan'. Whilst management has taken steps towards the overall objectives of these elements of the plan, the more informal nature of these steps mean they are not reflected in the formal policies and procedures of the Council and we are therefore unable to conclude these actions are fully embedded in the organisation. We are therefore unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result, we will issue an adverse value for money opinion.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Football club loan In 2015/16, the Council advanced a £10.25m loan to Northampton Town Football Club, which has not been repaid nor the proceeds recovered. The predecessor auditor identified a lack of a formalised system for documenting the due diligence process for loans, and that the accountability and decision making process was not sufficiently robust. A Public Interest Report on this matter was issued by the predecessor auditor in January 2021. In the 2017/18 ISA 260 report, the predecessor auditor concluded that the actions agreed to address these issues had not been fully implemented as at 31 March 2018. This resulted in an adverse value for money conclusion. The Council has expended significant resources to date to recover monies.	Informed decision making Sustainable resource deployment Working with partners and third parties	Under the previous risk, we have reported that the development of the due diligence and compliance manual and the implementation of the Licence to Practice Organisational Development and Training Plan, including the specific module around preparation of business cases, were not fully implemented during 2018/19. These are significant elements of the Authority's overall response to the findings of what went wrong with the awarding of the loan to Northampton Town Football Club. In addition to the loan to Northampton Town Football Club, the Authority has previously loaned £5.5 million to Northampton Rugby Football Club ('the rugby club') in 2014. During 2018/19, the Authority held further discussions with the rugby club over loaning an additional £1.5 million to the club. At the time of considering this proposal, the Authority had not yet implemented its new 'loans checklist' and, as noted above, the due diligence and compliance manual is also still to be completed. There was not therefore a formally defined process for the Authority to follow in assessing the proposal to loan additional amounts to the rugby club. Nevertheless, we have reviewed the process which was followed by the Authority in assessing the proposed loan. The Authority performed a two-stage review of the proposal, an internal assessment by the Authority's Governance and Risk Manager and an external review by Link Asset Management. The external review included consideration of factors identified in the KPMG Public Interest Report as not sufficiently considered in the assessment of the football club loan, including consideration of the financial position and performance of the rugby club, the future cashflow forecasts of the rugby club and compliance with EU state aid regulations. Cabinet approved the loan to the rugby club in February 2019, subject to a number of risks identified by the Authority's review processes being adequately addressed. The actions required to address these risks included obtaining cashflow forecasts from the rugby club which included the repayment of the loan to the Authority and sensitivity analysis of the impact of worse-than-forecast cash flows on the ability of the rugby club to service the loan on the final agreed terms. The rugby club withdrew their request for the loan prior to these points being addressed, therefore we are unable to assess whether these points would have been satisfactorily addressed prior to monies being paid to the rugby club. Up to the point of the loan request being withdrawn, the processes followed by the Authority appear reasonable. The absence of a formally defined process does however increase the risk that future processes may be inconsistent or insufficiently documented.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Football club loan (continued)	Informed decision making Sustainable resource deployment Working with partners and third parties	As of March 2019, the Authority had spent £1.6 million on efforts to recover the football club loan, including £662,000 during 2018/19. The majority of these costs relate to legal fees. The legal advice received by the Authority includes advice on the identity of parties from whom recovery could be sought, the quantum of amounts which could be recovered and the probability of successful recovery of monies. As of January 2021, the Authority has recovered £132,000 and expects to realise a further £645,000 from property sales during 2021. Both Deloitte and FRP Insolvency are working with the Authority to recover additional amounts on a contingent fee basis (i.e. no cost to the Authority if no recovery is made). Whilst the various risks, opportunities and costs identified by the Authority's legal advisors are reported to Cabinet, no formal cost-benefit analysis of continuing to pursue recovery of the loan has been performed, either during 2018/19 or since. Based on the above factors, specifically the outstanding actions to implement a due diligence and compliance manual and completion of relevant modules of the Licence to Practice Organisational Development and Training Plan, we are unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We do however note the overlap of this conclusion with our conclusion against the previous risk. Our review of the governance processes around the proposed loan to the rugby club have not identified additional observations, and we note the amount spend during 2018/19 on recovery of the football club loan was not material to the Authority. We do not therefore extend our adverse value for money opinion beyond the fact the Governance Action Plan was not fully implemented during 2018/19.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience The local government sector is facing financial challenges. For 2018/19, the Council set a net budget of £28.490 million. This included £1.8 million of savings and efficiencies, incorporating £320,000 from organisation redesign; £1.36 million of increased income and £142,000 of service reductions. The outturn report shows an overspend of £732,000 against budget. Over the medium term, the net budget requirement increases from £27.438 million in 2019/20 to £28.897 million in 2022/23. The Council has identified a savings requirement of £10.8 million over this period. The medium term financial strategy includes assumptions on the level of business rates income and new homes bonus, which will need to be reviewed regularly to ensure they are supportable and any changes reflected in the MTFP. The MTFP also includes use of reserves over the medium term of £4.5 million. The Council does hold £25 million of general reserves to mitigate against specific and general risks faced by the Council.	Informed decision making Sustainable resource deployment Working with partners and third parties	We have reviewed the financial outturn of the Authority against budget and note that the Authority's revenue activities were delivered with an overspend of £732,000 (2.4%). The main driver of this overspend was higher than anticipated homelessness costs, which are not wholly within management's control. The overspend was partially offset by management achieving savings of £2.48 million against budgeted savings of £1.82 million. The forecast overspend position was reported to senior management and members regularly throughout 2018/19. We have made enquiries of management and reviewed the assumptions used in the 2019-2022 Medium Term Financial Plan (MTFP). We note that management allowed for an additional £1 million spend on homelessness services, compared to the 2018-19 budget, to allow for the overspend in this area during 2018/19. Included within management's budget for 2019/20 were required savings of £1.134 million. We consider this level of savings to have been an achievable level of savings, given the Authority exceeded both this level and the targeted level of savings during 2018/19. Savings prior to 2018/19 were minimal in the Authority's budget, therefore only 2018/19 provides evidence of management's ability to realise planned savings. Overall we are satisfied that the Authority had proper arrangements in place during 2018/19 to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, with regards to management of its financial position and the setting of budgets.

06 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 2018/19 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 2018/19 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.

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 KPMG published their public interest report in respect of the football club loan on 27 January 2021.

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

Other matters

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

The Accounts and Audit Regulations 2015 require that a responsible financial officer signs and dates the financial statements prior to commencement of the period for public inspection. Whilst we understand the financial statements were internally approved by the responsible finance officer, the version published on the Council's website for public inspection was neither signed nor dated and did not therefore comply with the requirements of the Accounts and Audit Regulations 2015.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Due to the impending demise of the Authority, we have not raised formal recommendations in respect of our control observations however we wish to highlight the following matters which may be of interest to management of the new unitary authority:

- As described in sections 2 and 4, we noted a number of issues with the valuation of non-current assets. A number of these issues could be traced to inaccuracies in the information used by the Council's external valuers to prepare the valuations of assets. We would therefore encourage management of the new authority to consider the controls in place within the new Authority to ensure that information provided to external valuers is accurate, and hence that the valuations received are appropriate.
- We noted errors in the disclosure of future minimum lease commitments which occurred as a result of the Council's finance function not being informed where changes were agreed to the terms of the Council's lease agreements. From 2022/23, the new Authority will be required to adopt a new accounting standard, IFRS 16: Leases, which will require recognition of the Council's material operating lease commitments on the balance sheet. Controls to ensure the completeness and accuracy of lease information will be key to successful implementation of the new standard.
- We observed a minor control deficiency in respect of the basis of recharges from the General Fund to the Housing Revenue Account, for services such as legal and ground maintenance. These recharges, which total £1.88 million, are determined on a percentage of total cost basis, however the percentages used have been in place for a number of years and management were unable to provide support that they remain appropriate. We understand that a review of the basis of recharges to the HRA is already planned for the new Authority.
- During our testing of Council Tax write-offs we were unable to obtain evidence of the rationale for a sample of write-offs or evidence that the write-off was appropriately approved. We understand that management were unable to provide this evidence as these records are retained in individuals' e-mail records, and the relevant individuals are no longer employed by the Council. There is a risk that management are unable to demonstrate write-offs of Council Tax debt are appropriate if records are not formally retained by the Council.

08 Independence

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 6 February 2020.

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 Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 23 March 2021.

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 2019.

Description	Final Fee 2018/19 £	Scale Fee 2018/19 £
Base Scale Fee	62,197	62,197
Increase for changes in risk and regulatory environment [notes 1,3]	93,346	-
Revised Base Fee	**155,543**	**62,197**
Additional audit fee for response to specific audit findings [notes 2,3]	261,457	-
Total Audit Fee	**417,000**	**62,197**

Notes

1) We wrote to management and the 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. We break down on the following page the impact of these factors on our audit fee.
2) Where we have identified significant risks and other areas of audit focus, as reported in this report, we have undertaken additional procedures to obtain the appropriate levels of evidence to support our opinion. This work is over and above that assumed in the scale fee. We break down on the following page the areas where additional work has been required and the impact on our fee.
3) We have held discussions with management in respect of our audit fees but have not been able to reach agreement on the additional fee amounts. We will therefore submit our proposals to Public Sector Audit Appointments (PSAA) and ask them to make a determination as to the additional fee to be charged. As this process will not be completed prior to the dissolution of the Authority at the end of March, we will provide an update on these discussions to the Audit Committee of the new West Northamptonshire unitary authority.

Confirmation and analysis of audit fees

We provide below a breakdown of the increase in our fee for changes in risk and the regulatory environment:

Description	Final Fee 2018/19 £
Base Scale Fee	**62,197**
Increase in audit risk and complexity, including recognition of additional significant and inherent audit risks	32,743
Increase in value for money audit risk and complexity, including recognition of additional significant value for money risks	11,640
Increased costs of regulatory compliance	34,219
Increased use of auditor's specialists to address risk	7,928
Increased use of data analytics and other IT-based audit tools	6,816
Revised Base Fee	**155,543**
Additional audit fee for response to specific audit findings [note 1]	261,457
Total Audit Fee	**417,000**

Notes

1) The additional audit fee for response to specific audit findings includes audit fee in respect of:

- Additional audit effort required due to the poor quality of the draft financial statements and supporting working papers, and the resulting volume and size of changes made between the draft financial statements and the final financial statements;
- Additional audit effort to overcome difficulties auditing the valuation of non-current assets, including the use of EY valuation specialists; and
- Involvement of EY Forensics specialists to address fraud risks.

We will provide management with further details of the breakdown of our additional audit fee at the conclusion of the audit.

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees;
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
- Permitted services required by law or regulation will not be subject to the 70% fee cap;
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

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

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020): https://www.ey.com/en_uk/who-we-are/transparency-report-2020

09 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet.

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
Up to January 2020	Meetings	Various audit liaison meetings to develop understanding of the Authority as new audit client, audit risks and the planned audit approach.
06/02/2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
04/03/2020	Meeting	The audit team met with management to discuss difficulties completing audit work, and agreed that audit work would need to take place later in the year.
15/07/2020	Meeting	The audit team met with management to discuss the status of the audit and plans for resuming detailed audit work.
02/11/2020	Meeting	The audit team met with management to discuss the resumption of our audit work and the timetable for completion of our audit. This meeting also introduced Mark Rutter as our new Engagement Manager.
19/11/2020	Meeting	The audit team met with the Chief Executive to discuss the expected content of the KPMG Public Interest Report, the ongoing police investigation in respect of the football club loan and the Authority's response to these matters.
22/02/2021	Meeting	The audit team met with management to discuss the key findings of our audit, including our observations in respect of our value for money opinion. This meeting also introduced Janet Dawson as our new Engagement Partner.
23/03/2021	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Audit Committee.

In addition to the above specific meetings and reports, the audit team have held regular meetings with the Authority's Section 151 Officer and other senior officers involved in financial reporting where developments in the Authority, emerging audit topics and the status of our audit have been discussed. Since March 2020, these discussions have also considered the impact of the Covid-19 pandemic on our audit.

In line with government guidance and EY policy, discussions since the start of the Covid-19 pandemic have been held remotely.

Appendix C

Required communications with the Audit Committee

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

Required communications	What is reported?	Our Reporting to you 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
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▸ Significant difficulties, if any, encountered during the audit; ▸ Significant matters, if any, arising from the audit that were discussed with management; ▸ Written representations that we are seeking; ▸ Expected modifications to the audit report; and ▸ Other matters, if any, significant to the oversight of the financial reporting process.	Audit Results Report (this report)

Appendix C

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you: When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty; ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▸ The adequacy of related disclosures in the financial statements	Audit Results Report (this report)
Misstatements	▸ 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; ▸ Corrected misstatements that are significant; and ▸ Material misstatements corrected by management	Audit Results Report (this report)
Fraud	▸ 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; and ▸ A discussion of any other matters related to fraud	Audit Results Report (this report)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management; ▸ Inappropriate authorisation and approval of transactions; ▸ Disagreement over disclosures; ▸ Non-compliance with laws and regulations; and ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report (this report)

Appendix C

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report; and Audit Results Report (this report)
External confirmations	▶ 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	▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▶ 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	▶ 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	▶ Significant deficiencies in internal controls identified during the audit.	Audit Results Report (this report)

Appendix C

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group Audits	► 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; 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)
Fee Reporting	► Breakdown of fee information when the audit plan is agreed; ► Breakdown of fee information at the completion of the audit; and ► Any non-audit work	Audit Planning Report; and 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
Redevelopment of Vulcan Works site	We have a small number of queries still with management in respect of our review of the due diligence and approval processes for the redevelopment of the Vulcan Works site.	Management / EY
Financial instruments	Financial instrument disclosures have been subject to late amendment and we are still working through the agreement of the revised disclosures.	Management / EY
Restatement of 2017/18 comparatives	We are still working through queries with management on the restatement of the prior period comparatives in the CIES, reflecting the restructuring and different directorates disclosed in 2018-19.	Management / EY
Miscellaneous queries	There are some minor queries outstanding in respect of the Council's provision for bad and doubtful debts and Collection Fund discretionary reliefs.	Management / EY
Updated Statement of Accounts	Management are in the process of implementing a large number of changes to the Statement of Account agreed during the audit. We will need to trace through all of these changes once we receive the updated statements to confirm they are complete and appropriate.	Management / EY
Internal review	We are still completing our internal review procedures and final documentation to ensure the quality of our work.	EY
Going concern	We are in the process of agreeing going concern disclosures which can be used across the demising Northamptonshire bodies. Once this process is complete, management will need to include the agreed disclosures within the Statement of Accounts.	EY / Management
Letter of Representation	Receipt of signed letter of representation.	Management and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	Management / EY

Appendix E

Management representation letter

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

Management Representation Letter

[To be prepared on the entity's letterhead]

[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 council financial statements of Northampton Borough Council ("the Group and Council") for the year ended 31st March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Northampton Borough Council as of 31st March 2019 and of its financial performance and its cash flows for the year then ended in accordance with, for the Group and Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and for the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 that are free from material misstatement, whether due to fraud or error.

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

Management representation letter (continued)

Management Representation Letter (continued)

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. 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 laws and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees, including the Audit Committee held through the year to the most recent meeting on the following date: 25 March 2021.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

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

Management representation letter (continued)

Management Representation Letter (continued)

7. We have disclosed to you any unauthorized access to our information technology systems, including for the period 1 April 2018 to 31 March 2019 and since, that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than the events after the Balance Sheet date described in Note [TBC] to the [council] financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

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

G. Other information

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

H. Ownership of Assets

1. Except for assets recognised under finance lease accounting in accordance with IAS 17 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheets.

I. Reserves

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

J. Use of the Work of a Specialist

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

Management representation letter (continued)

Management Representation Letter (continued)

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

Stuart McGregor, Chief Financial Officer

____

Ian Orrell, Chair of Audit Committee

Appendix – Schedule of unadjusted audit differences

Misstatements impacting income and expenditure

- You noted an error in the calculation of the non-domestic rates appeals provision methodology which resulted in an overstatement of the appeals provision by £125,000. Correction of this misstatement would decrease expenditure and decrease provisions by £125,000;

- Your EY Real Estate valuation specialists disagreed with the valuations given by our valuer for the Council's two hotel investment properties, which you believe to be understated by £995,000. Valuation of property assets is subjective therefore we have opted not to amend for this judgemental audit difference. Correction of these differences would increase investment property and reduce net expenditure by £995,000.

Misstatements impacting other comprehensive income and expenditure

- The auditor of the Northamptonshire Pension Fund identified misstatement in the valuation of the Pension Fund's assets provided to the actuary to inform the calculation of the Authority's net pension liability. They have estimated the impact to be an understatement of the Authority's net pension liability and the actuarial loss for the year of £290,000.

Appendix F

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Northampton Borough Council
Code of Audit Practice 2020	▸ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▸ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▸ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▸ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	▸ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▸ Further updates will be provided when possible.
Independence	▸ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	▸ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019. Non-audit services which were in progress as at 15 March 2020 and are permitted under the previous ethical standard are allowed to continue under the existing engagement terms until completed. ▸ We do not currently provide any non-audit services to you.

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