



Corby Borough Council
2018-2019 financial
statements

Conclusion of the external audit

15 April 2021



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15 April 2021

Addressed to the Executive Director of Finance (Section 151 Officer) of North Northamptonshire Council



The purpose of this executive summary is to set out to you as the statutory responsible financial officer for North Northamptonshire Council the final conclusion of our external audit of Corby Borough Council's financial statements for the financial year ended 31st March 2019.

We were unable to issue our audit report on the 2018-2019 financial statements by the 31st March 2021 because we had not received a final set of signed financial statements incorporating all the agreed audit adjustments reported during the course of our work. Subject to this, our external audit work was completed by the 31st March 2021. As we were unable to conclude the audit by the 31st March 2021, the governance process for authorising the 2018-2019 financial statements and management representation letter for issue reverts from Corby Borough Council, now demised, to the North Northamptonshire Council.

Prior to the 31st March 2021, the Corby Borough Council Governance and Audit Committee agreed at its meeting on 2nd September 2020, and then again on the 13th January 2021, to delegate approval of the 2018-2019 financial statements to the then Director of Corporate Services in consultation with the Chairman of the Governance and Audit Committee. This followed consideration of the findings from our external audit in our written audit results report presented to the Committee on 2nd September 2020, supplemented by my verbal update on progress resolving the outstanding matters on the 13th January 2021. A copy of the audit results report will be sent to you alongside this summary for your reference.

The former Director of Corporate Services for Corby Borough Council discharged his statutory duties by the 31st March 2021 in:

- Agreement to all corrected audit adjustments being made to the primary statements and disclosures in the final accounts.
- Setting out reasons for not amending for one immaterial item in the management representation letter which we received on the 31st March 2021 signed by the Director of Corporate Services and the Chairman of the Governance and Audit Committee. This related to a misstatement of £290,000 in the valuation of one of the Council's investment properties. This difference does not impact on the Council's general fund balances.

We therefore are content that the delegation in place to approve the 2018-2019 financial statements can revert from the Section 151 officer at Corby Borough Council prior to 31st March 2021, to yourself as the Section 151 Officer for the North Northamptonshire Council from the 1st April 2021.

I can confirm that we have now agreed the final audited financial statements and that these have appropriately incorporated all of the adjustments we expect to the primary statements and disclosure notes. We intend to issue an unqualified audit report on the Council's financial statements for the 2018-2019 financial year.

To enable you to consider whether you are equally content to exercise this delegation and approve the 2018-2019 financial statements and management representations for issue, I set out on the following two pages the corrected adjustments which occurred after the 13th January 2021 and which I believe are appropriate to draw to your attention.

Corrected audit adjustments to draw to your attention that took place following 13th January 2021

1. Correction of five prior period restatements

During the course of our audit, we identified five prior period adjustments. Corby Borough Council officers agreed to all of the adjustments and we were able to agree and conclude a professional practice consultation on the restated primary statements and disclosures before the 31st March 2021. The financial statements appropriately disclose the prior period restatements at Note 41, an extract of which will be sent to you with this paper. Whilst all of the adjustments meet the criteria for a prior period restatement, these do not impact on the Council's general fund balances and financial position. In summary, the prior period restatements relate to:

- Overstatement of the valuation of a specialised asset, "The Cube" (£15million). This asset houses the Council chamber, a registry office, a public library and a 450-seat theatre. From our expert review of the valuation assumptions in 2018/2019, we identified that the rebuild cost of the asset had been overstated. The Cube was constructed in 2010 for £47.5million but the Council's specialists incorrectly assumed that the cost to rebuild was in line with the original construction costs. However, the costs to construct were £10million in excess of budget and therefore the valuation of the asset should have had an impairment review when it came into operational use. The Council's valuer did revisit the valuation, confirming an overstatement of £15million which our specialist corroborated.
- Reclassification of Council houses from assets held for sale (£3.283million). Previously, management had incorrectly assessed that when a tenant initiated a right to buy process, the asset should be reclassified as assets held for sale. As these assets are not being actively marketed, they do not meet the requirement of assets held for sale and have been reclassified on the Council's balance sheet.
- Overstatement of the revaluation reserve by £60.07million at the end of 2017/18 financial year. We identified that there has been a historic posting of incorrect revaluation movements. Finance officers have misinterpreted the CIPFA code guidance notes and had been posting all downwards revaluation to the Comprehensive Income and Expenditure Statement and upwards revaluations to the reserve. We requested that the finance officers reproduced the revaluation journals for each asset from 2010 onwards, coinciding with the first year of IFRS implementation in Local Government.
- Understatement of depreciation for playground equipment (£1.4million). The Council own playground equipment which was purchased in the 2010/20211 financial year. These assets were incorrectly recorded in the fixed asset register as not requiring depreciation, resulting in a cumulative overstatement to the fixed asset balance and an understatement of expenditure.
- Material impact of discrepancies between the fixed asset register and the Council's property services records. Several discrepancies were identified which cumulatively were material. These include; a) £201,000 of assets which had been demolished but not written out of the fixed asset register; b) £1.077million spend on assets under construction where the asset was in operation and subject to revaluations; c) £611k of surplus land no longer owned by the Council as these were disposed as part of a package of land sales to Tesco's in 2010; and d) £238k of investment properties which were either duplicate assets in other land and buildings or remained part of assets not fully written out on disposal.

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2. Corrected audit adjustment which although not material did impact on the Council's general fund balances

We challenged the finance team on whether it was appropriate to capitalise £430k of administrative and other general overhead costs, recharging these to capital programmes across the Council's service directorates. The Council's finance team were unable to demonstrate that the costs were incremental in nature and met the requirements of the CIPFA Code. As these costs have now been expensed, they do have a direct impact on the Council's level of general fund balances, although the adjustment itself is not material.

3. Appropriateness of going concern disclosures for the merger of Corby Borough Council and North Northamptonshire Council

Following our audit procedures including professional practice consultations, we concluded that the going concern and post balance sheet events disclosures associated with the local government reorganisation in North Northamptonshire were appropriate. These disclosures were applied to sovereign Northamptonshire Local Government bodies in North Northamptonshire that had either 2018-2019 or 2019-2020 financial statements which were in a position to be authorised for issue by 31st March 2021. The disclosures covered the conditions relevant to the liquidity and viability of the North Northamptonshire Council until the end of March 2022.

As the Corby Borough Council 2018-2019 financial statements was not authorised for issue by the 31st March 2021, the going concern disclosure note has been updated to reflect management's assessment on the conditions relevant to the North Northamptonshire Council's liquidity and viability up to the end of April 2022. We have reviewed management's assumptions and conclude that the updated disclosure is appropriate. We have not identified any material uncertainties on the continuity of service provision.

We therefore propose to include, consistent with the rest of the North Northamptonshire sovereign Local Government bodies, an emphasis of matter in our audit report that draws readers attention to the going concern and post balance sheet event disclosure notes. An emphasis of matter is not a qualification or modification to our audit report.

Next steps

We are in a position to issue our audit report on the 2018-2019 financial statements for Corby Borough Council once we receive the signed and authorised 2018-2019 financial statements and management representation letter. We appreciate that this is subject to your review of this executive summary, the audited 2018-2019 financial statements and your conclusion on whether you are content to exercise the delegation that was in place before 31st March 2021, and carried across to you after the 1st April 2021 in your statutory officer role at North Northamptonshire Council. Should that be the case, once we receive the authorised financial statements, we will issue our audit report. To meet our respective responsibilities, I propose that this report, our Annual Audit Letter and an officer report on the closure of the 2018-2019 accounts for Corby Borough Council is presented to the first meeting of the North Northamptonshire Audit Committee following the election of Committee members. I will attend this meeting.

Yours faithfully

Neil Harris, Associate Partner, For and on behalf of Ernst & Young LLP Encl

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