Corby Borough Council
Interim Audit Results Report

Year ended 31 March 2021

June 2023

EY
Building a better working world

June 2023

Dear Governance and Audit Committee Members

2020/21 Audit Results Report

We attach our interim audit results report, summarising the status of our audit of Corby Borough Council's 2020/21 financial statements.

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

As at the date of writing this report our work is ongoing, the details of this and context is provided in the detail of the report. As reported at the last committee meeting, we have struggled to obtain sufficient and appropriate evidence to support all balances and transactions in the accounts. We are continuing to work with officers to complete our audit of the accounts.

This report is intended solely for the information and use of the Governance and Audit Committee, other members of the Authority and senior management. It is not intended to be and should not be used by anyone other than these specified parties. We welcomed the opportunity to discuss the contents of this report with you at the upcoming Governance and Audit Committee meeting.

Yours faithfully

E.Jackson.

Elizabeth Jackson, Partner
For and on behalf of Ernst & Young LLP
Encl

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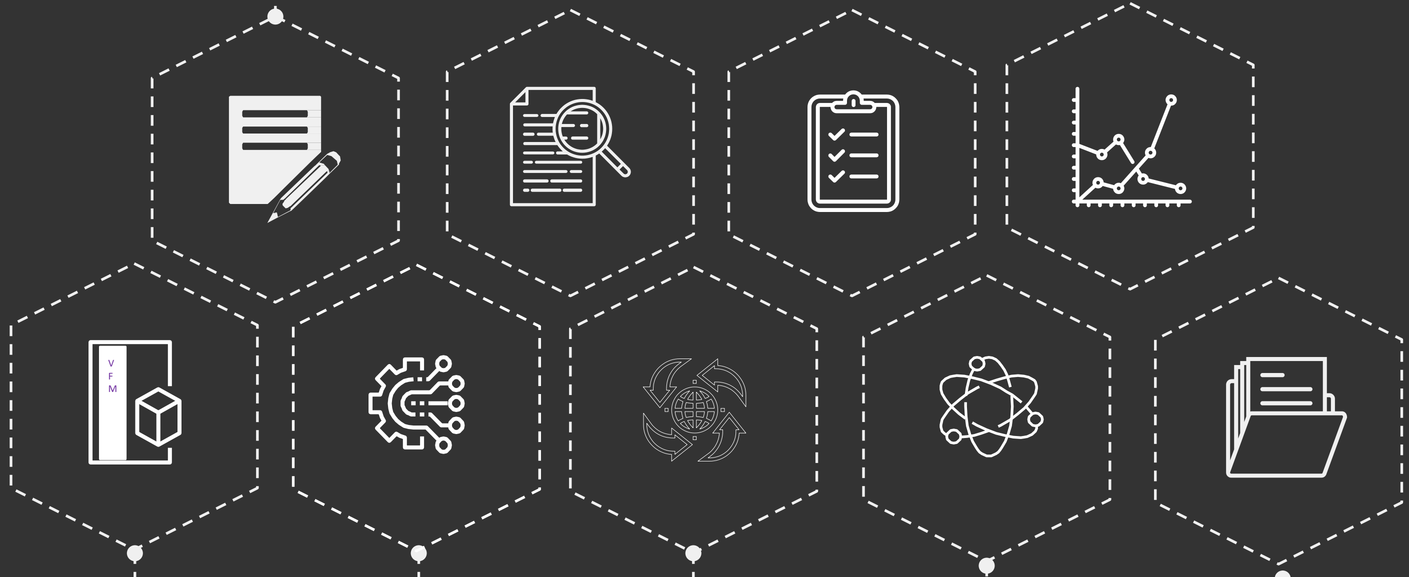


Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement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

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Governance and Audit Committee and management of Corby Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance and Audit Committee, and management of Corby Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance and Audit Committee and management of Corby Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report dated 24 January 2023, presented to the Governance and Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following updates:

Our materiality is unchanged from planning. Materiality has been set at £1,118,860, which represents 2% of gross expenditure on provision of services in the 2020/21 draft financial statements.

Materiality	***Authority (£m)***
Planning Materiality	*£1.1m*
Performance Materiality	*£0.5m*
Audit Differences	*£0.05m*

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity. We undertook the following to address this risk:

- *Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and*
- *Agreed IPE to scanned documents or other system screenshots.*

Initial audit findings for 2020/21

In our audit plan we reported that we received the draft 2020/21 accounts for audit on 24 November 2022. We communicated our planned audit visit timing for the 2020/21 audit well in advance of the accounts being prepared and asked management to meet this deadline for having all working papers ready for day one of the audit on 9 January 2023. We did not receive all working papers in line with this deadline and those that were received were not of sufficient quality for us to undertake audit testing as needed. The overall quality of the working papers is poor and we returned a large number of them to officers as they do not reconcile to the draft accounts. In addition, due to officer changes it is difficult for the current finance team to locate supporting evidence and answer queries about working papers and balances.

The overall quality of the draft 2020/21 accounts submitted for audit is also poor. Based on the Partner and Senior Manager read through of the accounts we have identified a number of errors within them. This includes inconsistencies in the figures and narrative, notes not casting and disclosures being incorrect for the Council. The accounts should have been subject to quality review before submission to audit. The combination of the accounts and working papers issues has resulted in issues arising with the audit from day one and additional procedures needing to be undertaken across the accounts.

Executive Summary

Audit differences and issues arising during the audit

We have identified a large number of errors in the accounts and within the sample testing which will result in significant amendments to the current version of the accounts. As a result, we are unable to conclude on the value of these errors as we are waiting for information from officers or confirmation that they agree no further information can be provided to support the balance/transaction. Sample testing is in progress and we have had to extend a number of samples due to the level of error within the evidence provided to support the item of account.

As a result, our work is still ongoing and final agreed adjusted and unadjusted differences will be reported as part of our final reporting procedures upon completion of our work. The main areas requiring completion include:

- ***Property, Plant & Equipment (PPE) including investment property***
- ***Debtors***
- ***Cash***
- ***Creditors***
- ***Provisions***
- ***Leases***
- ***Pension Scheme Liabilities***
- ***Reserves***
- ***Income and Expenditure***
- ***Grant income (including Covid grants)***
- ***Other disclosures***

There are a number of areas where we are yet to able to conclude on whether the accounts are materially fairly stated as the testing is in progress. We continue to work with management to be able to conclude on the 2020/21 accounts based on the level of information and supporting evidence that has been provided to date.

We have agreed a number of amendments to the 2020/21 accounts based on the work we have been able to conclude and these are set out in section 04 of this report.

Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Status of the audit – Value for Money

In the audit planning report presented to the Governance and Audit Committee, we reported that we were yet to complete our detailed value for money (VFM) risk assessment. However we highlighted that we had identified one risk of significant weakness in relation to the lack of bank reconciliations during 2019/20 and 2020/21.

We subsequently completed our planning risk assessment and identified one further risk that the Council did not update, maintain or present risk registers to those charged with governance throughout 2020/21. Additionally, from our work on the financial statements we have identified a number of weaknesses in the internal control environment that should underpin the production of the accounts.

We have concluded our work on the risk identified and concluded that this represents a significant weakness in proper arrangements in relation to the governance criterion. We have modified our audit opinion accordingly.

More details are within section 05 of this report.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement (AGS) for consistency with our knowledge of the Authority. The draft presented for audit needs to be revised to ensure it is reflective of the Authority's arrangements in 2020/21, reflecting the issues included within this report in respect of the preparation of accounts and supporting working papers and the wider risk management and governance arrangements in place during 2020/21. Our conclusion is that there was inadequate consideration of the issues arising at the Authority in the year during the preparation and review of the AGS before submitting to audit.

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee on the outcome of this work. The Authority will be below the threshold for a full WGA audit.

We have no other matters to report at this stage, however, our work is still ongoing.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Control deficiencies identified can be found in section 07 of this report. We have identified a high number of weaknesses in the internal control environment to support the production of the accounts.

Independence

Please refer to Section 08 for our update on Independence. We have no independence issues to report.

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) 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?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation.

What did we do?

Our approach focused on:

- *Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.*
- *Assessing accounting estimates for evidence of management bias.*
- *Evaluating the business rationale for significant unusual transactions.*

Further to this, we have:

- *Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.*
- *Considered the effectiveness of management's controls designed to address the risk of fraud.*

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above.

What are our conclusions?

Our work in these areas is ongoing.

However, in our work to date, we have identified an internal control weakness in relation to the posting of journals by a senior member of the finance team. We have tested all of the journals posted by the officer and have not identified any fraud or error within them. However, there is no review process for journals in the year so this exposes the Authority to risk of fraudulent behaviour. Further detail is set out in section 07 of the report.

Significant risk

Inappropriate capitalisation of revenue expenditure

What is the risk and potential impact on the financial statements?

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

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

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

We:

- *Tested additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.*
- *Considered the need to test REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. However, we note that expenditure capitalised as REFCUS was well below our performance materiality level so there was no requirement to undertake any detailed testing.*
- *Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.*

In testing the capitalised expenditure we focused on the following judgements:

- *We sought to gain assurance the capitalised spend clearly enhanced or extended the useful like of assets rather than simply repairing or maintaining the assets on which it was incurred.*
- *We sought to gain comfort that any development or other related costs that were capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.*

We sought to utilise our data analytics capabilities to assist with our work, including journal entry testing.

What are our conclusions?

- *Our testing of capital additions has highlighted two errors:*
  - *a number of representative sample items that have been capitalised for which the Council are unable to evidence compliance with the capitalisation criteria set out in IAS 16*
  - *the Council has capitalised £457k of internal recharges, the Council have been unable to evidence how these roles meet the definition of IAS16. The Council are not proposing to adjust the financial statements for this error on the basis of materiality and we will seek management representation to this effect.*
- *Our work in respect of REFCUS is complete with no issues noted.*
- *Our work in respect of journals is ongoing.*

Significant risk

Valuation of Investment Property (IP)

What is the risk?

Investment Property (IP) is a significant balance in the Council's Balance Sheet. The valuation of IP is complex and subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 (C-19) on markets might cause a valuer to conclude that there is a material uncertainty.

The risk is heightened for traditional retail assets due to market difficulties such as reduced consumer confidence and competition from internet based retailers with lower cost bases. This has led to a large number of retailers, including well known names, closing stores, going into administration or otherwise seeking to reduce their rental costs by renegotiating existing leases, perhaps by way of a Creditors Voluntary Arrangements. These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers or owned by them.

What did we do?

We:

- *considered the competence, capability and objectivity of the Council's valuers (Wilks, Head & Eve);*
- *considered the scope of valuers' work;*
- *ensured IP has been annually revalued as required by the Code;*
- *considered if there are any specific changes to assets that should have been communicated to the valuer(s);*
- *sample tested key inputs used by the valuer(s) when producing valuations;*
- *considered the results of the valuers' work;*
- *challenged the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary);*
- *tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;*
- *tested a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and*
- *reviewed assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated.*

What are our conclusions?

Our work is ongoing. We have raised a number of challenges on the valuation of investment properties and have not yet been provided with comprehensive responses to the queries to allow us to conclude on the assets selected for testing.

The work of EYRE is in progress.

However, in our work to date, we have identified one property where the incorrect site size has been used. The impact of this is to increase the valuation by circa £2m.

We are currently assessing the impact of this error on our audit.

Significant risk

Valuation of Council Dwellings

What is the risk and potential impact on the financial statements?

Council Dwellings with a total carrying value of £296 million has undergone a full revaluation during the year. This led to a significant movement of £46 million.

Due to the significance of the value and the increase as a result of the full revaluation, we have identified the valuation of this category of asset as a significant risk.

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

We took a substantive approach to respond to the risk, undertaking the following procedures related to the valuation of property:

- *Considered the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;*
- *Sample tested key asset information used by the valuers in performing their valuation;*
- *Tested a sample of beacon properties to ensure that the value is in line with market value;*
- *Reviewed assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated;*
- *Considered changes to the useful economic lives as a result of the most recent valuation;*
- *Tested accounting entries, ensuring these have been correctly processed in the financial statements including testing the classification of assets; and*
- *Considered if the valuation movements in the current year are indicative of errors in the prior year.*

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

We have completed our testing of the current year valuations in line with the work programme detailed in this report and not identified any issues with the 2020/21 valuations.

This work is subject to review by the Senior Manager and Partner.

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Valuation of PPE *The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and is subject to valuation changes and impairment reviews.* *Management is required to make material judgements about key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.*	*We:* ▪ *Considered the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;* ▪ *Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists as necessary – for example, significant or unusual movements in valuation, difficult to value specialist assets, or investments in areas of the economy under stress such as retail;* ▪ *Sample tested key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre);* ▪ *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 PPE, and annually for IP. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;* ▪ *Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;* ▪ *Considered changes to useful economic lives as a result of the most recent valuation; and* ▪ *Tested accounting entries have been correctly processed in the financial statements.*

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

Our work in this area is ongoing and our specialist real estate team are in the process of reviewing the sample of assets selected for specialist testing. A summary of the ongoing issues identified by the local team to date is detailed below:

- *Surplus Assets – Within Surplus assets the Council holds land valued at circa £1.2m with an undetermined use, in accordance with IAS40 this should be classified as investment property and revalued annually. We have challenged the Council and its valuers to provide valuations for the last 3 years as this would also be required to be amended in the prior year under the requirements of IAS8, we are awaiting this information and it is likely this will require the Council to restate the prior year balances;*
- *Community Centres have been valued using existing use value (EUV), our experts view is that this undervalues the service potential of the Council holding/providing the assets and there is no sales market in order to assess value and they should therefore be valued at Depreciated Replacement Cost (DRC). We are currently in the process of agreeing the actions required to make the required adjustments. Again, these will be material and will require adjustments to the prior year under IAS8;*
- *Our work to assess the valuation of the Cube is ongoing; and*
- *The revaluation reserve did not reconcile to underlying working papers. The Council have had to undertake extensive work to reconcile this, which has been impacted by errors in prior years. We are currently reviewing the updated working papers.*

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Recognition of grant income associated with Covid 19 *The Council has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants (including business rate related grants) to be manipulated to improve the reported position.* *We will consider the elements of grant income, their susceptibility to manipulation and the appropriate audit response.*	*We considered the Council's judgement on material grants received in relation to whether it is acting as:* ▪ *An Agent, where it has determined that it is acting as an intermediary; or* ▪ *A Principal, where the Council has determined that it is acting on its own behalf.* *We are waiting for the Council to provide justification for the recognition of £449k of grants received in year.*
Valuation of defined benefit pension scheme *The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.* *The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.* *Accounting for this scheme 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 experts and the assumptions underlying fair value estimates.*	*We:* ▪ *Liaised with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Corby Borough Council;* ▪ *Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by The National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and* ▪ *Reviewed and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.* *Our work in this area is complete subject to Partner review. No issues were identified as a result of our testing.*

03 Audit Report

Audit Report

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

To be updated on completion of our work.

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 adjusted differences

Our work is still ongoing and final agreed adjusted and unadjusted differences will be reported as part of our final reporting procedures upon completion of our work. We have identified a large number of presentational and casting errors within the accounts, we have had ongoing discussions with the Council and shared our concerns over the quality of the accounts and supporting working papers.

Action has been taken by the Council to progress this and we have continued to work together to resolve the issues identified. This has been compounded by the difficulties in providing sufficient evidence for sample testing due to legacy staff no longer being available or the time delay in being able to reproduce accurate evidence, this has led to finding alternative solutions to facilitate this to try and minimise any impact of any significant amendments to the final accounts. To date o*ur audit of the Authority's draft accounts has identified a number of adjustments which the Council has adjusted for in their revised financial statements.*

- ***Debtors – Our work identified three errors within debtors totalling £1.1m, all of which had the effect of reducing the year end reported position:***
  - ***Credit Notes – The Council issued credit notes to the value of £379k after year end demonstrating that the amount was not collectable, Debtors have been reduced accordingly.***
  - ***Write offs – Subsequent to the end of the financial year the Council has written off £377k of uncollectable debt from their sales ledger, as these amounts are uncollectable they have been removed from the year end debtor balance.***
  - ***Valuation Office Agency (VOA) – The VOA duplicated a property within the valuation schedule which resulted in the Council billing the same property twice. The value of this was £782k, with the share of this attributable to Corby £289k.***
- ***Property Plant & Equipment (PPE) – Whilst our work is still ongoing in respect of PPE valuation out work has highlighted two errors which will require the Council to restate prior year balances under IAS8:***
  - *Surplus Assets – Within Surplus assets the Council holds land valued at circa £1.2m with an undetermined use, in accordance with IAS40 the correct classification is as investment property, which is required to be revalued annually. As the Council currently has these classified as surplus assets, which do not have the same revaluation requirements the Council will need to get updated valuations from their valuers covering 1 April 2019, 31 March 2020 and 31 March 2021.*
  - *Community Centres have been valued using existing use value (EUV), our experts view is that this undervalues the service potential of the Council holding/providing the assets and there is no sales market in order to assess value and they should therefore be valued at Depreciated Replacement Cost (DRC). We are currently in the process of agreeing the actions required to make the required adjustments. Again, these will be material and will require adjustments to the prior year under IAS8.*
- *Cash – There was a reclassification of short term investments to cash of £1.5m to ensure the financial statements agreed with underlying ledger balances.*

We include specific details in Section 02 in our response to areas of audit focus and Section 04 audit differences as appropriate. A large number of other amendments were made to disclosures appearing in the financial statements as a result of our work.

Audit Differences

Summary of unadjusted differences

Our audit of the Authority's draft accounts has identified one adjustment which the Council has decided not to adjust for in their revised financial statements. We will seek management representation for this items:

- *The Council has capitalised £457k of internal recharges, the Council have been unable to evidence how these roles meet the definition of IAS16.*

There are also a number of projected misstatements where we have identified errors in our representative sampling, these include:

- *Creditors – Over accrual of expenditure £113k*
- *Prior year expenses included in the current year expenditure listing £81k*

Work is ongoing in both of these areas as we have a number of queries outstanding with the Council.

05 Value for Money

Value for money

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

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

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

Auditor responsibility under the new code

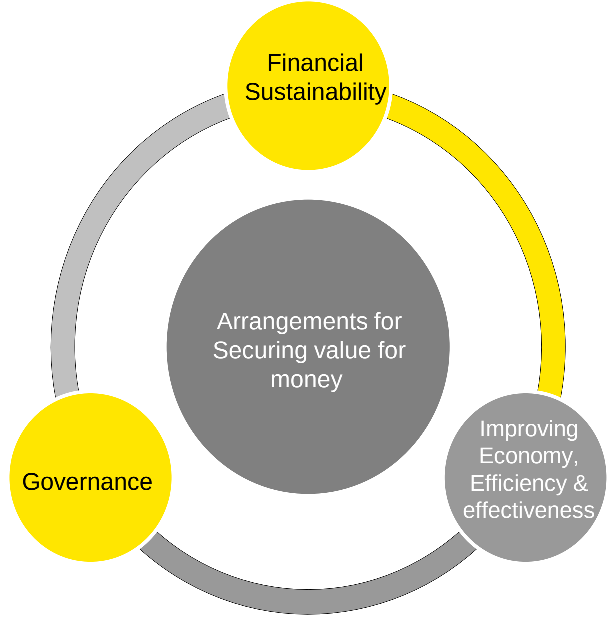
On 1 April 2020, the NAO's new Code of Audit Practice (the 2020 Code) came into force. This sets out how local auditors are expected to approach and report their work on value for money (VFM) arrangements under the new Code and applies to audits of 2020/21 financial statements onwards.

Under the 2020 Code, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified criteria are:

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

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.



Value for Money

Risk assessment
In the Audit Planning Report, we reported that we were yet to complete our value for money (VFM) risk assessment but had identified one risk of significant weakness. *We subsequently completed our planning risk assessment and identified one further risk in that the Council did not update, maintain or present risk registers to those charged with governance throughout 2020/21. Additionally, from our work on the financial statements we have identified a number of weaknesses in the internal control environment that should underpin the production of the accounts.* *We have concluded our work on the risks identified and concluded that this represents a significant weakness in proper arrangements in relation to the governance criterion. We have modified our audit opinion accordingly.*

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
During the audit we identified that management had not undertaken a bank reconciliation in 2019/20 and 2020/21 financial year. *The bank reconciliation is a key financial control in the production of the financial statements and other financial information which the Council rely upon*	*Governance* *Improving economy, efficiency and Effectiveness*	*During the course of the audit we identified that management had not undertaken a bank reconciliation throughout 2020/21 financial year.* *The Annual Governance Statement has been updated to reflect that the Council did not perform a bank reconciliation between April 2019 and April 2021. The bank reconciliation is a key component of the control environment and necessary for the prevention and detection of fraud and error. As the entity did not perform a bank reconciliation during 2020/21, management would be unable to detect whether their internal reporting throughout the year was materially complete and accurate.* *The issue above is evidence of significant weaknesses in relation to the governance – how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. As a result of this we have issued a modified auditors report in respect of our value for money conclusion.*
Our initial planning procedures highlighted that no risk registers had been prepared in year. Additionally, our initial work on the financial statements highlighted a number of internal control weaknesses which impacted the quality of financial reporting.	*Governance* *Improving economy, efficiency and Effectiveness*	*Our planning identified that the Council did not prepare risk registers for the 2020/21 financial year and that risk management was not effectively managed or presented to members throughout the year.* *Our review of the financial statements and subsequent work has highlighted a number of control weaknesses. The accounts prepared for audit were of poor quality and records in support of those in some instances have not been retained. Section 7 of this report details some of the significant control weaknesses identified.* *The issue above is evidence of significant weaknesses in relation to the governance – how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. As a result of this we have issued a modified auditors report in respect of our value for money conclusion.*

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 2020/21 Financial Statements document 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.* *Our work in this area is ongoing.*

Whole of Government Accounts
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. *We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission as the work on the accounts audit is ongoing. The Authority is below the threshold so a full audit is not required.*

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We 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.

To date we have nothing to report in respect of these matters.

Other matters

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

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

We have nothing further to report on these issues that is not contained within other sections of our report.

07 Assessment of Control Environment

Assessment of Control Environment

Assessment of Control Environment

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed and we considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely.

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.

As reported in our audit plan we reported that our initial planning work identified a number of weaknesses in the control environment to produce the financial statements:

- *We did not receive all working papers in line with the agreed timetable;*
- *The quality of the working papers that we did receive within the agreed timetable received was poor and were not of sufficient quality for us to undertake audit testing as needed.*
- *Subsequent working papers that have been received are poor and we have returned a large number of them to officers as they do not reconcile to the draft accounts.*
- *Due to officer changes it is difficult for the current finance team to locate supporting evidence and answer queries about working papers and balances.*
- *The overall quality of the draft 2020/21 accounts submitted for audit is also poor. Based on the Partner and Senior Manager read through of the accounts we have identified a significant number of errors within them. This includes inconsistencies in the figures and narrative, notes not casting and disclosures being incorrect for the Council. The accounts should have been subject to quality review before submission to audit.*

The combination of the accounts and working papers issues has resulted in issues arising with the audit from day one and additional procedures needing to be undertaken.

Assessment of Control Environment

Assessment of Control Environment

In addition to the issues recorded as a result of our initial work, and further to those reded against the risk areas we continue to identify further errors in the financial statements that we wish to bring to the attention of the Governance and Audit Committee at this stage.

These issues are yet to be resolved but are indicative of weakness in the Control environment of the council and the underlying books and records that have been maintained in support of the 2020/21 financial statements:

- *Cashflow – The cashflow note presented for audit does not comply with the Code, which requires the disclosure of changes in liabilities, in addition there is an unreconciled difference of £230k within purchases of property, plant and equipment which is essentially a balancing item required for the cashflow to balance. This will be an unadjusted difference in our final report.*
- *Other Creditors – In our initial sample of creditors the Council have been unable to provide evidence for a number of our sample, in response to this we have been required to extended our sample.*
- *Receipts in advance – Our testing has highlighted that the Council do not follow the correct double entry convention when accounting for rent received or paid in advance. This has resulted I both debtors and creditors being overstated. The Council are currently reviewing the relevant transactions to identify the adjustments required.*
- *Support Service Charges – The income and expenditure presented within note 7 of the financial statements includes internal recharges. For 2020/21 this has resulted in £8.8m being removed from both income and expenditure. As this is material this will require restatement of the prior year under IAS8.*
- *Exit Packages – In October 2018 the Council increased the multiplier used in the calculation of its redundancy payments. This was to bring its policy in line with the other seven councils that formed part of the Northamptonshire reorganisation. We are currently assessing the impact of these changes on the payments made.*
- *We have identified that journals have been posted by the Deputy Director of Finance without any further authorisation or review. This is one of the key risks we look for when undertaking our journal testing. As a result we had to extend our testing to review all such journals, our testing did not identify any further issues to report.*

In addition to these ongoing issues there have been a significant number of working papers and queries which have required the Deputy Director of Finance to undertake extensive work to recreate the working papers as they had either not been prepared or retained, examples of this includes:

- *Housing Benefit Debtors and Creditors*
- *Cashflow and supporting notes, where balancing numbers had been entered throughout to ensure the account balanced; and*
- *Reserves, particularly the revaluation reserve.*

8 Independence

Relationships, services and related threats and safeguards

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

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

Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

The agreed fee presented is based on the following assumptions:

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

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

There will be a significant scale fee variation for the 2020/21 audit to respond to the significant and inherent risks, areas of focus on our audit of the Council's financial statements as well as our work on value for money arrangements as set out in this report.

We have also communicated to management the need for additional fee due to the level of error identified in the draft accounts based on our read through of the accounts and the poor quality working papers provided for audit. The level of audit work being undertaken to get assurance over the transactions and balances in the draft accounts is extensive with the majority of samples needing to be extended to reach a conclusion over the error in the population.

We will report our proposed variations to officers and the Governance and Audit Committee at the conclusion of our 2020/21 audit and before we submit to PSAA for approval and determination.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£'s	£'s	£'s
Total Fee – Scale Fee	39,692	39,692	39,692
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see next page)	To be confirmed	To be confirmed	28,377
Changes in scope	To be confirmed	-	-
Total audit fees	To be confirmed	To be confirmed	68,069

Other communications

EY Transparency Report 2022

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

EY UK 2022 Transparency Report | EY UK

9 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- *Existence: An asset, liability and equity interest exists at a given date*
- *Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date*
- *Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items*
- *Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded*
- *Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework*

There were no significant changes to our audit approach apart from the additional work we were required to undertake to address the requirements of the new auditing standard on accounting estimates. This primary impacted out audit procedures on:

- *The revaluation of land and buildings classified as Property, Plant and Equipment (PPE), Investment Property (IP) and Surplus Assets.*
- *Pension liability and asset valuation.*

Required communications with the Governance and Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Governance and 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. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Plan
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 • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report

Appendix B

		Our Reporting to you
Required communications	**What is reported?**	**When and where**

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*
	• *Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:*
	  • *Management;*
	  • *Employees who have significant roles in internal control; or*
	  • *Others where the fraud results in a material misstatement in the financial statements.*
	• *The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected*
	• *Any other matters related to fraud, relevant to Governance and Audit Committee responsibility.*
		Audit Results 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* • *Difficulty in identifying the party that ultimately controls the entity*	*Audit Results Report*
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* • *Information about the general policies and process within the firm to maintain objectivity and independence*	*Audit Plan* *Audit Results Report*

Appendix B

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 related to going concern* • *Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements* • *The appropriateness of related disclosures in the financial statements*	*Audit Results 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* • *Material misstatements corrected by management*	*Audit Results 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*
External confirmations	• *Management's refusal for us to request confirmations* • *Inability to obtain relevant and reliable audit evidence from other procedures.*	*Audit Results Report*
Consideration of laws and regulations	• *Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur* • *Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of*	*Audit Results Report*

Appendix B

		Our Reporting to you
Required communications	***What is reported?***	***When and where***
Significant deficiencies in internal controls identified during the audit	• *Significant deficiencies in internal controls identified during the audit.*	*Audit Results Report*
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.*	*N/A*
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*
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*
Auditors report	• *Key audit matters that we will include in our auditor's report* • *Any circumstances identified that affect the form and content of our auditor's report*	*Audit Results Report*

Management representation letter

To be updated upon completion of our work.

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