

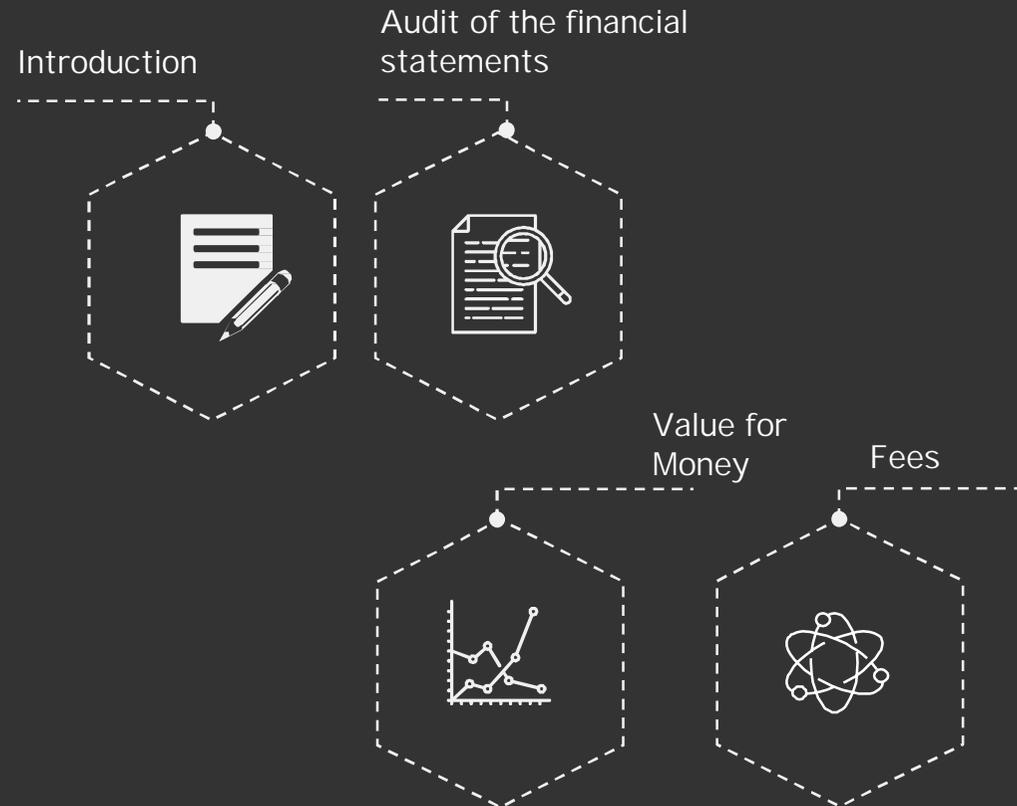
A photograph of a modern building's interior, viewed through a glass wall. The interior features a polished, light-colored floor that reflects the ceiling lights and the glass structure. The ceiling is white with recessed lighting. The glass wall is framed by dark metal. A yellow rectangular box is overlaid on the left side of the image, containing text.

Corby Borough Council

Auditor's Annual
Report

Year ended 31 March 2021

Contents



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

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Authority 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 Authority 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 Authority 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.



Introduction

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Authority, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued in January 2023. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Authority;
- If we identify a significant weakness in the Authority's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2020/21 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended. We issued our auditor’s report on 21 March 2024.
Going concern	We have concluded that the Executive Director of Finance’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	<p>We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.</p> <p>On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weakness in the Authority’s arrangements for the year ended 31 March 2021.</p> <p>Risk management and internal controls are important elements of an authority’s performance management system and are crucial to the achievement of planned outcomes. The following significant weaknesses in internal controls were present during 2020/21:</p> <ul style="list-style-type: none">- bank reconciliations were not performed in a timely manner;- the Corporate Risk Register was not updated or presented to the Governance and Audit Committee for scrutiny; and- weaknesses in the financial statements preparation processes leading to material errors in the draft financial statements, poor quality supporting working papers and, in some cases, supporting records not being retained. <p>The issues above are evidence of weaknesses in proper arrangements impacting governance and improving economy, efficiency and effectiveness.</p>



Introduction (continued)

2020/21 Conclusions

Consistency of the annual governance statement	We requested additional detail be included in the annual governance statement with regard to the value for money issues identified. These changes have been made and we were satisfied that the revised annual governance statement was consistent with our understanding of the Authority .
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	The NAO as group auditor has confirmed that no further assurances will be required from us as component auditors in respect of the 2020/21 Whole of Government Accounts submission.
Certificate	We have issued our audit certificate as part of the audit report dated 21 March 2024.



Audit of the financial statements

Key findings

The Narrative Statement and Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

On 21 March 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 15 September 2023 Governance and Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Conclusion

Misstatements due to fraud or error

An ever present risk is that management is in a unique position to commit 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.

Our work did not identify any material weaknesses in the design or operation of controls or evidence of material misstatements, whether due to fraud or error.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Inappropriate capitalisation of revenue expenditure

Our testing of capital additions highlighted two errors:

- a number of representative sample items that have been capitalised for which the Council is unable to evidence compliance with the capitalisation criteria set out in IAS 16. These have been amended in the revised financial statements; and
- the Council has capitalised £457k of internal recharges. The Council has been unable to evidence how these roles meet the definition of IAS16. The Council did not adjust the financial statements for this error and management representation has been provided.



Audit of the financial statements (continued)

Area of audit focus	Conclusion
Valuation of investment property	<p>As a result of our testing the value of investment property increased by £5.2m from the draft financial statements. The issues identified included, but were not limited to:</p> <ul style="list-style-type: none">• Incorrect land sizes being used;• The inclusion of a property which had been sold; and• Incorrect componentisation, resulting in valuation errors.
Valuation of Council Dwellings	We did not find any issues in the valuation or subsequent disclosure of Council Dwellings in the Authority's financial statements.
Valuation of property, plant and equipment	<p>As a result of our work the net book value of PPE increased by £1.2m from the draft financial statements.</p> <p>Our testing highlighted errors in the classification of surplus assets, the valuation basis of community centres and the accuracy of the revaluation reserve. As these errors resulted in material misstatements and these were prevalent in the prior year, under the provisions of IAS8 the Council were required to calculate the impact on the prior year and restate the comparators in the 2020/21 financial statements.</p> <p>In addition a number of adjustments were required to the valuations based on the results of the work of our specialist.</p>
Recognition of grant income associated with Covid-19	We identified a small number of immaterial misstatements which were corrected by management.
Pension liability valuations	No issues were identified as a result of our testing.

We identified two further uncorrected errors relating to an over accrual of expenditure and prior year expenses included in the current year financial statements. This overstated expenditure by £196k. Management did not amend for this due to the error being immaterial. We sought management representation to confirm this.



Value for Money

Risk assessment

Scope and Reporting

We are required to report on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the Authority, which was based on a combination of our cumulative audit knowledge and experience, our review of Authority reports, meetings with officers and evaluation of associated documentation through our regular engagement with Authority management and the finance team.

As a result of the issues detailed below we have issued a modified auditors report as we have identified significant weaknesses in the arrangements in relation to the governance criteria. The below issues are all evidence that the Council did not have sufficient and appropriate arrangements in place to ensure it makes informed decisions and properly manages its risks.

Note: Corby Borough Council demised as at 31 March 2021 and formed part of the new North Northamptonshire Council from 1 April 2021. The VFM commentary on pages 9 to 12 covers the arrangements in place during that year and up to the point the Council ceased to exist.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Bank reconciliation: During the audit we identified that management had not undertaken a bank reconciliation in 2019/20 and 2020/21 financial year.</p> <p>The bank reconciliation is a key financial control in the production of the financial statements and other financial information which the Council rely upon.</p>	Governance	<p>During the course of the audit we identified that management had not undertaken the bank reconciliation throughout 2020/21 financial year.</p> <p>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 have been unable to detect whether their internal reporting throughout the year was materially complete and accurate.</p>
<p>Risk registers: Our initial planning procedures highlighted that no risk registers had been prepared in year.</p>	Governance	<p>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.</p>
<p>Financial statements: Our work on the financial statements highlighted a number of internal control weaknesses which impacted the quality of financial reporting.</p>	Governance	<p>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 source records in support of those, in some instances, had not been retained which required additional audit procedures to be carried out to obtain the required assurance for the audit report.</p>

Value for Money – Summary of arrangements

Financial Sustainability

The Corporate Plan informs the development of the annual budget and the operational Service Plans for the delivery of all Council services. The Service Plans will set out the activities that each service will undertake to deliver against the priorities set out in the Corporate Plan and the S151 Officer liaises with the senior management team in the preparation of the Medium Term Financial Plan (MTFP) to ensure consistency.

Despite continued budget constraints, the Council put in place arrangements to manage the available resources effectively to ensure it could continue to fund services. In common with most local authorities, the Covid-19 pandemic has had a significant impact on the Council's financial position in 2020/21. This continued into 2021/22 and beyond, although the extent of the longer-term impact will depend on how quickly the wider economy recovers. Reductions in Council tax and Business Rates collected during 2020/21 has impacted on the Council's financial position, although Central Government will fund a proportion of Covid related losses.

The financial plan and budget that was presented to Council, ahead of the start of the following year, reflects revenue, investments and capital planning as expected. Treasury management and capital proposals were reviewed on a regular basis. Financial plans included areas that are also reported on individually to ensure a robust financial resilience position. The budget was fully itemised and broken down across Council services to ensure all areas were recognised and consistent with the wider strategy and budget.

All savings and efficiencies were identified in full, in advance of the 2020/21 financial year. These were detailed through the Council's budget setting process (moving forward via North Northamptonshire Council - NNC). Monthly budget monitoring meetings were held between finance and budget managers. Variances were highlighted at an early stage in order to inform the medium term plans and future. Financial risk within the plans was monitored with the regular monthly monitoring to quickly identify any areas of concern. Regular reports were provided to the senior management team to identify risk and plans to mitigate prepared.

The Council planned its finances through an increased robustness of MTFS savings plans, including more explicit linkages to the Council's business priorities. This was structured in a way to combine and capture all of the Council's strategic plans. The Council had a credible track record of delivery of savings on which to whether such challenge and holds reserves and contingencies to help mitigate against risks and uncertainties such as Covid 19.

As the Council has been merged into North Northamptonshire Council (NNC), the budget and MTFP for 2021/22 was prepared by the new Council and we have not covered that in our work.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2020/21 to enable it to plan and manage its resources to ensure that it could continue to deliver its services.

Value for Money – Summary of arrangements

Governance

The Council had a long-established Constitution which together with a range of codes of conduct, policies and procedures which supported informed decision making. The Council's Constitution included guidelines on how decisions need to be made and by whom. The Council had procedures that comply with the Freedom of Information Act and required elements of the General Data Protection Regulations, such as subject access requests and publication of privacy notices. Council or committee reports were published via the Council's website.

A risk management framework was in place which included regular reporting of risk to the leadership team via review meetings and to Members at the Audit & Governance Committee. The Council set out its annual Internal Audit plan ensuring that key internal controls were assessed and reported.

From our audit procedures we identified that the Council did not prepare risk registers for the 2020/21 financial year. The risk register is a key element of the Authority's governance framework that enables it to monitor and manage the risks to the achievement of its strategic objectives. As part of its risk management system, the Corporate Risk Register should be reported to and reviewed by the Council's Senior Management Team and the Audit and Governance Committee on a regular basis. As the Corporate Risk Register was not updated or scrutinised by Council Members, the Authority did not have an effective control in place to monitor and manage risks to the achievement of its strategic objectives. and that risk management was not effectively managed or presented to members throughout the year. We considered this to be a significant weakness in arrangements and as a result modified our audit opinion in this respect.

The annual Internal Audit opinion is given as part of the overall assurance framework and is used to inform the preparation of the Annual Governance Statement, which was included within the Annual Financial Report and included an assessment of all internal audit reports and the assurance they provided over internal control environment. Internal audit work was carried out on anti fraud throughout the year and an overall assessment of arrangements made as part of overall Internal Audit opinion in Annual Governance Statement. The overall assurance opinion for 2020/21 from Internal Audit was Satisfactory.

Both Internal and External Audit reports were taken to Audit & Governance Committee that identified deficiencies in controls relating to the performance of bank reconciliations. The bank reconciliation is a key component of the Council's control environment and necessary for the prevention and detection of fraud and error. Throughout the financial year bank reconciliations were not completed in a timely manner. Whilst the underlying matching processes for payments and receipts had been completed during 2020/21 financial year, outstanding reconciling items had not been resolved in a timely manner or been subject to any independent review. As part of the preparation of the 2020/21 financial statements, the Council performed all outstanding reconciliations and was able to reconcile balances as at 31 March 2021. No issues were identified in the year end bank reconciliation. Management has put in place regular bank reconciliations from April 2021 and is reviewing the wider control environment and financial reporting arrangements for the new North Northamptonshire Council. We considered this to be a significant weakness in arrangements and as a result modified our audit opinion in this respect.

The Council had a statutory Head of Service (Chief Executive), S151 officer (Executive Director of Finance) and also a statutory monitoring officer (Executive Director of Resources) in post during the year. The constitution provides further safeguards as do the management assurance statements provided by all senior managers, and the annual governance statement. The S151 and monitoring officers declare in the quarterly monitoring reports if there have been any known breaches of the constitutional procedure rules. This quarterly monitoring report is considered by the Cabinet. Staff also complete declarations of interest as part of closedown and in 2020/21 there were no instances of non-compliance.

Value for Money – Summary of arrangements

Governance (continued)

Regular monitoring of key performance indicators is undertaken monthly, reports are prepared within the services and are reviewed by Senior Management and then presented at the appropriate Committee: Cabinet, Council, Audit, Budget & Financial Strategy, Planning, Scrutiny and/or Standards to provide transparency and allow for challenge, these meetings are clearly documented and actions recorded and followed up.

The Council produced regular formal budget monitoring reports in line with its budget monitoring timetable. This included regular reporting to the Council's senior management team and Executives. Budgets are reviewed on a monthly basis with the appropriate manager with appropriate scrutiny and challenge, reasons for variances are documented and mitigated where possible. Formal reports are taken to Resources Committee on a quarterly basis, including outturn reports.

We have considered the quality of the draft financial statements prepared for audit and the weaknesses in the financial statements preparation processes which led to material errors in the draft financial statements, poor quality supporting working papers and, in some cases, source supporting records not being retained which led to additional testing by audit to verify the balances and transactions. The draft financial statements were significantly amended before the audit report could be concluded. These weaknesses in the processes and systems to support its statutory financial reporting requirements meant that the financial statements and supporting working papers presented for audit were of poor quality, requiring additional time and effort from Council officers and the audit team. We considered this to be a significant weakness in arrangements and as a result modified our audit opinion in this respect.

Conclusion: Based on the work performed, we have identified significant weaknesses in the arrangements that we reported by exception in relation to:

- bank reconciliations were not performed in a timely manner;
- the Corporate Risk Register was not updated or presented to the Audit and Governance Committee for scrutiny;
- weaknesses in the financial statements preparation processes leading to material errors in the draft financial statements and poor quality supporting records.

Note: We have not made any recommendations in relation to the weaknesses identified as the improvements required in the governance arrangements for preparing financial statements and managing risk and internal control are the responsibility of the new Council, North Northamptonshire Council.

Value for Money – Summary of arrangements

Improving economy, efficiency and effectiveness

The Council used a number of frameworks to identify and deliver savings, which were set out in the budget report. The Council's performance reporting included monitoring of key performance indicators (KPIs) as well as financial monitoring reports which were taken to the Executive meetings. Regular reports in respect of joint working projects are taken to committee for consideration.

Regular monitoring of key performance indicators was undertaken monthly, reports were prepared within the services and were reviewed by Senior Management and then presented at the appropriate Committee: Cabinet, Council, Audit, Budget & Financial Strategy, Planning, Scrutiny and/or Standards to provide transparency and allow for challenge. These meetings were clearly documented and actions recorded and followed up.

The Council had clear procurement policies and procedures and provided training for all officers. Compliance was regularly reported at the leadership team.

The Council had an Internal Audit service which, in addition to providing assurance services, also provided operational recommendations and controls reviews. The outcome of these and any recommendations were tracked at Audit & Governance Committee. This information was used in conjunction with financial and performance information to identify areas for improvement.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2020/21 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Fees, 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. As at the date of this report, there were no future services which had been contracted and no written proposal to provide non-audit services had been submitted to the now demised Authority.

We carried out our audit of the Authority's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

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 audit work on the accounts and the poor quality working papers provided for audit. The level of audit work undertaken to get assurance over the transactions and balances in the draft accounts was extensive with the majority of samples being extended to reach a conclusion over the error in the population.

Audit Fees	Final Fee 2020/21	Final Fee 2019/20
	£	£
Scale Fee – Code work	£36,692	£36,692
Final 2019/20 scale fee variation as determined by PSAA		£28,377
Scale fee increase proposed 2020/21 (see Note 1)*	£36,181	-
Scale fee variation proposed re specific 2020/21 issues (See Note 2)*	£119,125	-
Code of Audit Practice 2020 and updated auditing and accounting standards 2020/21 (see note 3)*	£15,349	-
Total Fees*	£207,347	£68,069

Note 1 – As communicated previously, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. This results in a proposed increase in the scale fee of £36,181.

Note 2 - We have quantified the impact of the specific 2020/21 issues to be £119,125.

Note 3 - The impact on audit fees of the new requirements in the Code of Audit Practice 2020 and new or updated auditing and accounting standards for 2020/21 audits as set out in the additional information for 2020/21 audit fees issued by PSAA in August 2021. This paper sets out agreed fee ranges for the new requirements. For the Authority we determined this to be £10,855 for VFM and £4,494 in relation to the new estimates standard ISA540. This does not cover the additional work in relation to additional pensions assurance.

*Subject to determination by PSAA.

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