

**Appendices:**

- A- Summary of adjustments
- B- Statement of Accounts 2018/19
- C- Letter of Representation



**NORTHAMPTON**  
BOROUGH COUNCIL

## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>Approval of Statement of Accounts 2018-19</b>
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**AGENDA STATUS: PUBLIC**

<b>Audit Committee Meeting Date:</b>	25 March 2021
<b>Policy Document:</b>	Statement of Accounts
<b>Directorate:</b>	Chief Finance Officer
<b>Accountable Cabinet Member:</b>	Cllr Brandon Eldred

### 1. Purpose

- 1.1 This report presents the Council's final audited Statement of Accounts for 2018-19. The draft accounts for audit were presented to the Committee in September 2019 and were submitted to Ernst & Young LLP (EY LLP) for external audit. The audit commenced in January 2020 after the conclusion of the 2017-18 audit by the previous auditor KPMG. The Audit is now substantially complete as reflected in the Audit Results Report contained elsewhere on this agenda. After consideration of the Auditor's report and opinion the Audit Committee is asked to approve the final Statement of Accounts for 2018-19.
- 1.2 To confirm to the Committee that prior to their formal approval, the s151 Officer, being the responsible financial officer, reconfirms on behalf of the Borough Council, that he is satisfied that the statement of accounts presents a true and fair view of:
- The financial position of the Council at the financial year ending 31 March 2019; and
  - The Authority's income and expenditure for that financial year.
- 1.3 To present the 2018-19 Statement of Accounts to the Audit Committee for final approval and signing by the Chair.
- 1.4 To present the Letter of Representation, subject to availability, in respect of Northampton Borough Council for signature by the Chair of the Audit Committee and the Chief Finance Officer (s151 Officer) on behalf of the Council.

## **2. Recommendations**

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- 2.1 That the Audit Committee, subject to the auditor's position as set out in the Audit Results Report elsewhere on this agenda, either:
- 2.1.1 approves the final 2018-19 Statement of Accounts for Northampton Borough Council at Appendix B and that the Chair of the Audit Committee and the Chief Finance Officer (s151 Officer) sign the accounts on behalf of the Borough Council; and
  - 2.1.2 approves the Letter of Representation at Appendix C, in respect of Northampton Borough Council, and that the Chair of the Audit Committee and Chief Finance Officer (s151 Officer) sign the letter on behalf of the Borough Council.
- or
- 2.1.3 That the Audit Committee delegates authority to the Chief Finance Officer and the Chair of Audit Committee on or before 31 March 2021 to:
    - i) approve and sign the final Statement of Accounts for Northampton Borough Council at Appendix B as revised by the resolution of outstanding items set out in the Audit Results Report; and
    - ii) approve and sign the letter of representation on behalf of the Borough Council at Appendix C, as revised by the resolution of outstanding items set out in the Audit Results Report.
  - 2.1.4 That the Audit Committee agree that in the event that all outstanding matters cannot be resolved to enable signing of the 2018/19 Statement of Accounts and the Letter of Representation by 31 March 2021 as set out in 2.1.2 or 2.1.3 above, that those matters shall be referred to the Audit Committee of the new West Northamptonshire Council at the earliest practicable date after 1 April 2021.

## **3. Issues and Choices**

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### **3.1 Report Background**

- 3.1.1 The Borough Council's accounts are presented on a basis that complies with International Financial Reporting Standards (IFRS) and Code of Practice on Local Authority Accounting (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.1.2 The objective of the Statement of Accounts is to provide information about the Borough Council's financial performance to a wide range of users for assessing the stewardship of the Council's management.
- 3.1.3 The External Auditor is required to report separately to this Committee on the findings during the audit of accounts and provide an opinion on the Statement of Accounts and in relation to Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (Value For Money) for the financial year 2018-19.

- 3.1.4 The Audit Committee are required to:
- Approve the Statement of Accounts for 2018/19 set out at Appendix B.
  - Approve the Letter of Representation set out at Appendix C.
- 3.1.5 It is a requirement that the letter is signed by persons with specific responsibility for the financial statements, which for this Council is the Chief Finance Officer (s151 Officer), and formally acknowledged as being correct by 'those charged with governance' by being signed by the Chair of the Audit Committee.
- 3.1.6 Subject to approval of the recommendations in this report, the certified Statement of Accounts will be published by the 31 March 2021. This is later than the statutory reporting deadlines and reporting requirements of 31 July 2019 and is allowed for by regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. The delay is due to the following reasons:
- The audit of accounts did not commence until January 2020, after the sign off of accounts for the year ended 31 March 2018 by the previous auditor.
  - As 2018-19 was the first year of EY LLP undertaking the audit, there were additional tasks to be undertaken that would have normally have been completed prior 31 March 2019.
  - There were resource constraints due primarily to the Covid19 pandemic.
  - There were a significant number of complex audit queries that the Council worked with EY to resolve.

## 3.2 Statement of Accounts

- 3.2.1 The final Statement of Accounts is set out at Appendix B and comprises:
- **The Narrative Report** - providing a summary of the most significant matters reported within the accounts and of the Council's financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on performance in 2018/19.
  - **Statement of Responsibilities** – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statements and the financial management of the Council.
  - **The Core Financial Statements** – providing the Council's financial position as at 31 March 2019 comprising of:
    - **Comprehensive Income and Expenditure Statement (CIES)** - Reports the net cost for of all of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
    - **Movement in Reserves Statement (MIRS)** - Shows the movement in the year on the different reserves held by the Council. The reserves are

analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.

- **Balance Sheet** - Presents the value of the Council's current and non-current assets and liabilities as at 31 March 2019 with the bottom line effectively being the net worth of the organisation.
- **Cash Flow Statement** - Summarising the inflows and outflows of cash arising from transactions with third parties, this analysis shows how the Council generates and uses cash and cash equivalents.
- **The Expenditure and Funding Analysis (EFA)** – this demonstrates to council tax payers how the funding available to the Council has been used to provide services, the EFA also shows how this expenditure is allocated between the Council's directorates.
- **Additional statements** - for the Collection Fund, the Housing Revenue Account (HRA) and Group Accounts.
- **Notes to the Core Financial Statements and the EFA** - these provide further supporting details on aspects of the accounts and which are largely defined by the Code.
- **Accounting Policies** – this section details the accounting policies followed by the Council throughout the year and applied in producing the Statement of Accounts.
- **Glossary** – the Statement inevitably includes a number of technical terms and this section provides an explanation of their meaning.

3.2.2 The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions of the Code in respect of going concern reporting requirements reflect the economic and statutory environment within which authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Council's accounts are therefore produced under the Code and assume that the Council's services will continue to operate for the foreseeable future.

3.2.2 The functions and services of Northampton Borough Council will be transferred to West Northamptonshire Council on 1st April 2021 in accordance with The Northamptonshire Structural Changes Order 2020 (Statutory Instrument 2020 No. 156)

3.2.3 **Group Accounts** – In additions to the Council's single entity accounts outlined above, the Council is required to prepare Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/ or joint ventures. During 2018-19 Northampton Partnership Homes Ltd (NPH) accounts were consolidated within the Council's accounts. NPH's Net Assets of £9m, Net Expenditure of £2.7m and Cash Balance of £1.7m has been consolidated in the Group Accounts.

### 3.3 Amendments to the Pre audit Statement

3.3.1 The draft Statement of Accounts 2018-19 for audit was presented to this Committee and published on the Council's website on 23 September 2019. The final audited accounts including all audit adjustments are presented in Appendix B of this report.

3.3.2 There have been a number of significant audit adjustments as a result of the audit. A summary of adjustments is provided at Appendix A to support Members in reviewing the Statement of Accounts. This compares the final position on the Comprehensive Income and Expenditure Statement, Balance Sheet and Movement in Reserves Statement with the draft Statement of Accounts published in September 2019.

3.3.3 The most significant changes to the accounts as agreed with the external auditor are summarised below.

- A range of amendments to the valuation of Property, Plant and Equipment totalling £4.8m, including the impairment from assets under construction of the demolition costs of the former Greyfriars Bus Station.
- The reclassification of an investment of £5.6m from Long Term Debtors to Short Term Investments, to correctly reflect the nature of the investment.
- An adjustment between Short Term Debtors and Short Term Creditors for £9.0m to correctly represent the outstanding balance with Northamptonshire Partnership Homes. This amendment does not impact on the group accounts.
- An adjustment of £1.1m between Cash and Cash Equivalents and Short Term Debtors for cash received in respect of debtor accounts.
- A reduction of £4.6m in Earmarked Reserves to cover the costs of making a provision for the repayment of debt in respect of council borrowing in connection with the loans made to Northampton Town Football Club.

3.3.4 In addition, the external auditor has required a change to the Council's MRP Policy in relation to loans to third parties in order to comply with statutory guidance on MRP issued by the Ministry for Housing Communities and Local Government (MHCLG) and formerly DCLG. The Policy now reads as follows:

*Third party loans – Under statute the payment of the loan to a third party for capital purposes will be treated as capital expenditure and will increase the Council's Capital Financing Requirement (CFR). The expenditure will normally be financed by the third party loan principal repayments being treated as capital receipts and applied to reduce the Council's CFR. As a result, MRP will not generally be required to be charged in relation to loans to third parties. The Council will review the individual circumstances of each third party loan on an annual basis to assess the risk that the loan will not be repaid. If the Authority considers that some or all of the loan may not be repaid, it will make plans to make financial provision for the potential losses that may arise from non-repayment of the loan principal which may include charging MRP, setting aside capital receipts or building revenue reserves that will be applied to reduce the CFR at an appropriate time based upon prudent assessment.*

3.3.5 The impact of the audit adjustments upon the General Fund Reserves is outlined in Table 1 below:

**TABLE 1 Movement in General Fund Reserves**

	<b>Earmarked Reserves</b>	<b>Unrestricted General Fund</b>	<b>Total General Fund Reserves</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balances per draft accounts	28,459	4,000	32,459
Debt repayment provision	-4,625	-	-4,625
Interest payment correction	-	42	42
<b>Total General Fund Reserves</b>	<b>23,834</b>	<b>4,042</b>	<b>27,876</b>

3.3.6 The external auditor identified the following errors, which have not been adjusted in the final Statement of Accounts for the reasons summarised below and set out further in the Letter of Representation at Appendix C:

- The calculation of the non-domestic rates appeals provision methodology which resulted in an overstatement of the appeals provision by £125,000.
- EY Real Estate valuation specialists disagreed with the valuations given by management's valuer for the Council's two hotel investment properties, which EY believe to be understated by £995,000.
- The auditor of the Northamptonshire Pension Fund identified misstatement in the valuation of the Pension Fund's assets provided to the actuary to inform the calculation of the Authority's net pension liability. They have estimated the impact to be an understatement of the Authority's net pension liability and the actuarial loss for the year of £290,000.

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

### **Balance Sheet**

3.3.7 The effect of the audit adjustment upon the Council's balance sheet at 31 March 2019 is summarised in Table 2 below:

**TABLE 2 Movement in Net Worth**

	£m
Net Worth in Draft Accounts	431.3
Greyfriars Bus Station demolition costs removed from Assets under Construction	-5.3
Other property asset valuation changes	0.5
Minor adjustments to investment values	-0.1
<b>Revised Council Net Worth</b>	<b>-426.4</b>

## **4. Implications (including financial implications)**

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### **4.1 Policy**

4.1.1 There are no specific policy implications from this report.

### **4.2 Resources and Risk**

4.2.1 There is a resource implication in ensuring that the finance team and other teams required to support the audit process are available to support the delayed audit process and closedown activities in the current year 20/21. This has placed additional demands on staff time due to the audit of the 2018/19 and 2019/20 accounts out of step with the normal annual financial reporting cycle. This may lead to additional costs through the retention of external resources supporting the teams to the conclusion of the closedown and audit of the authorities accounts.

### **4.3 Legal**

4.3.1 The actions proposed in this report will enable the Council to meet its statutory requirements of finalising its 2018/19 Statement of Accounts.

### **4.4 Equality**

4.4.1 There are no specific equality implications from this report.

### **4.5 Consultees (Internal and External)**

4.5.1 This report has been produced by the Chief Finance Officer (s151 Officer).

4.5.2 The external audit commenced in January 2020 by EY LLP. The completion of the audit has been prolonged due to the reasons set out in 3.1.6 above and as set out in the Audit Findings Report (ISA 260) produced by EY LLP.

4.6 The Audit Committee has received periodic updates on the progress of the audit from EY LLP over the course of the audit.

### **4.7 Other Implications**

4.7.1 None specifically.

## **5. Background Papers**

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5.1 None

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