

Kettering Borough Council Audit results report

Year ended 31 March 2019

16 September 2019



Monitoring and Audit Committee
Kettering Borough Council

13 September 2019

Dear Monitoring & Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Kettering Borough Council (the Authority) for 2018/19. We will issue our final report following the Audit Committee meeting on 26th September 2019.

We have substantially completed our audit of the Authority for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4 of this report. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Monitoring & Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26th September 2019.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01

Executive Summary



Executive Summary

Scope update

In our audit plan presented at the 5 February 2019 and update to the 10th April 2019 Monitoring and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements and Value for Money conclusion. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality – As part of our normal audit procedures we updated our planning materiality assessment using the draft statement of accounts and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.302 million (audit plan — £1.010 million). This results in updated performance materiality, at 50% of overall materiality, of £0.61 million, and an updated threshold for reporting misstatements of £65k.
- Since April 2019, we have not identified any significant changes in our financial statements audit strategy and risk assessment.
- We reported to the 21st May 2019 Monitoring and Audit Committee the circumstances leading to the rescheduling of the Council's financial statements audit due to our resource constraints.
- We provided an update to the 25th July 2019 Monitoring and Audit Committee on our audit findings and conclusions reviewing the Council's Commercialisation strategy and the decision making arrangements for investment decisions made in the 2018-2019 financial year. We have not identified any further significant changes to our Value for Money conclusion risk assessment and conclusions.
- We have also updated our risk assessment in the light of outturn capital expenditure, as well as the decision to defer Local Government reorganisation in Northamptonshire by a year. This has resulted in changes to our significant risks identified at planning. A summary of the changes in significant risks is included in section 2 of our report.

Two risk reported in our audit plan that are no longer considered significant risks are:

- Omission or understatement or provisions
- Incorrect adjustments through the movement in reserves statement

See section 2 of our report for further details.



Executive Summary

Status of the audit

We have substantially completed our audit of the Authority's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Queries on sample testing of the I&E, Debtors, Creditors, PPE, Investment Properties.
- Testing to be completed on Borrowings, Provisions, Reserves, REFCUS, Grant Income, HRA Disclosures
- PPE valuations work – testing is underway and a sample of assets is being reviewed by our EY Real Estate team.
- Clearance of all queries on our audit query log
- Review of the final version of the financial statements
- Completion of our final review processes
- Completion of subsequent events review
- Receipt of the signed management representation letter
- IAS19 assurances from the appointed auditor for the Northamptonshire Pension Fund. The programme of work for IAS19 assurances cannot start until the predecessor auditor has issued the statutory audit opinion on the 2017-2018 Northamptonshire Pension Fund financial statements.

We expect to issue the audit certificate after we issue the audit opinion.

Audit differences

At the date of this report there are no unadjusted audit differences arising from our audit.

In common with other local authorities, the Authority has made changes to the draft accounts in relation to pensions. These changes reflect information received after the preparation of the draft accounts. Firstly, it has updated the value of pension assets. This has reduced pension assets by £1,228,000. Secondly, it has increased the net defined benefit pension liability by £587,000. This follows information received in July from the pension fund actuary in respect of the impact of national issues on age and gender discrimination (commonly known as the McCloud case).



Executive Summary

Areas of audit focus

Our audit plan identified key areas of focus for our audit of the Authority's financial statements We summarise below our latest status on the work around these key areas.

Area of audit focus	Findings & conclusions
Valuation of other land & buildings & investment properties	We are undertaking our work in relation to the valuation of PPE. We have engaged our EY Real Estates team to test a sample of assets.
Pension liabilities	We are completing our review but await the outcome of the audit of the Northamptonshire Pension Fund, which is yet to commence due to 2017/18 statutory opinion not yet being issued by the predecessor auditor, KPMG LLP.
Implementation of new accounting standards	We have considered management's impact assessment and are satisfied that the Authority has implemented the new standards appropriately and there is a low risk of material misstatement.

We do report any other observations and conclusions on the above matters, and any others identified in these areas. We ask you to review these and any other matters in this report.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.



Executive Summary

Control observations

We have adopted a fully substantive detailed testing approach, so have not tested the operation of controls followed in the prior year. As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

We have included in Section 6 the detailed work we carried out in response to the risk.

Other reporting issues

We have reviewed the information presented in the May 2019 version of the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission though the Council are below the reporting threshold for detailed audit procedures. We have agreed with the NAO to issue our assurance statement at the point we have issued our audit opinion and certified closure of the audit.

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest. We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Independence

We have no matters relating to our Independence to bring to your attention. Section 10 includes our update.



02

Areas of Audit Focus

Areas of Audit Focus

Change in audit strategy – Changes in significant risks

What were the significant risks at the planning stage which have since been downgraded?

Risk / area of focus	Risk identified	Details
Omission or understatement of provisions	Fraud risk	Management may have been under pressure from the County Council to manipulate accounting records to support the Council's Stabilisation Plan. We therefore identified the omission or incorrect valuation of provisions as a separate risk which could result in the material understatement of expenditure in year.
Incorrect adjustments through the movement in reserves statement (MiRS)	Fraud risk	Linking to the fraud risk above we considered the adjustments between the accounting basis and funding basis under regulations as a separate risk which could impact on the General Fund and other useable reserves reported in the MiRs in the financial statements.

Why did we downgrade these risks?

The above fraud risks, reported in the Audit Plan were no longer deemed to be significant as the risks around Local Government Reorganisation and the potential pressure for the districts to make a financial contribution to Northamptonshire County Council did not materialise.

Local government reorganisation in Northamptonshire has been put on hold for another year. It was decided in May 2019, that the shadow unitaries will now operate from 1 April 2020, rather than 1 April 2019 and the two new unitary councils will be fully operational from April 2021.

What are our conclusions?

We have not identified any instances of inappropriate judgements being applied.

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



Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition. We will undertake specific testing to address this risk.

What judgements are we focused on?

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the classification of revenue spend as capital and the Income and expenditure accounts.

What did we do?

Our approach focused on:

- The identification of fraud risks;
- Performing inquiries of management about risks of fraud and controls put in place to address those risks, and considering the effectiveness thereof;
- Gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

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





Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition. We will undertake specific testing to address this risk.

What judgements are we focused on?

Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme which is significant for 2018/19.

What did we do?

Capital expenditure is material to the financial statements. We undertook additional procedures to address the specific risk we have identified, which included:

- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of incorrect capitalisation of revenue expenditure.

We have not identified any instances of inappropriate judgements being applied.

Our testing of capital additions identified no instances where expenditure had been inappropriately capitalised.





Significant risk

Valuation of Property, plant and equipment (PPE)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition. We will undertake specific testing to address this risk.

What judgements are we focused on?

We focused on aspects of the land and buildings and Investment Property valuation which could have a material impact on the financial statements, primarily:

- significant changes in the asset base;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

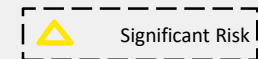
What did we do?

Our approach is focussing on:

- considering the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- sample testing key asset information and assumptions used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- considering 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 considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- reviewing assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- considered there have been no significant changes to useful economic lives as a result of the most recent valuation; and
- testing accounting entries have been correctly processed in the financial statements

What are our conclusions?

We are in the process of concluding audit work on valuations. We have also engaged our EY experts to test a sample of assets. We will provide an update of our findings to the 26th September 2019 Monitoring and Audit Committee.





Areas of Audit Focus



Other Areas of Audit Focus – Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £52 million (£43 million at 31 March 2018).

The information disclosed is based on the IAS 19 report issued to the Authority 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.

Our approach has focused on:

- Liaising with the auditors of Northamptonshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Northamptonshire County Council;
- Assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

We are satisfied that the Authority have correctly reflected the IAS 19 entries provided by their actuaries in the financial statements. We are also satisfied that the actuaries are appropriately qualified.

This year, there has been a national issue which resulted in a late change to the Council's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling".

We asked Officers to obtain an updated actuarial estimate of net pension scheme liability taking into account the McCloud ruling and any difference between actual and estimated return on pension scheme assets. We have assessed the appropriateness of the increased liability in the light of these adjustments and concluded that it is reasonable.

As the Northamptonshire Pension Fund 17/18 audit opinion has not yet been issued, we have not yet received responses to our enquiries of the auditors of the fund for assurances concerning 18/19. We are therefore unable to conclude on this matter at this stage.



Areas of Audit Focus



Other Areas of Audit Focus – New accounting standards

The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts
- IFRS 16 – Leases

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

Standard	Audit Findings
IFRS 9 – Financial Instruments	Our audit procedures for financial instruments did not identify any audit issues.
IFRS 15 – Revenue from Contracts	Our audit procedures for revenue from contracts did not identify any audit issues.
IFRS 16 – Leases	IFRS 16 replaces IAS 17 Leases and its related interpretations, it will apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority. We have considered the Authority’s implementation plan and preparedness for IFRS 16. The Authority have already considered their completeness of leases and identifying those that may require reclassifying. We therefore believe the Authority is well placed to address the implications of IFRS 16.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
 - new definitions of assets, liabilities, income and expenses
 - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
 - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).



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Audit Report



Audit Report

Our draft opinion on the financial statements

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

Opinion

We have audited the financial statements of Kettering Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 44, the Collection Fund and the related notes 1 to 6, and the Housing Revenue Account and related notes 1 to 8.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:
give a true and fair view of the financial position of Kettering Borough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Head of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Head of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2018/19 set out on pages 4 to 20, other than the financial statements and our auditor's report thereon. The Head of Resources is responsible for the other information.

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

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

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Kettering Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.



Audit Report

Our draft opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 21, the Head of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Kettering Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Kettering Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



Audit Report

Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Kettering Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Kettering Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
xx/xx/2019



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 to date as at 13th September 2019

At this stage of the audit there were no uncorrected misstatements identified as part of our audit.

As noted in the Executive Summary a national issue has resulted in a relatively late change to the accounts and IAS19 liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government’s appeal, which suggested that the amounts relating to these rulings should be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements. The actuary has now estimated the impact of the McCloud ruling for the Authority.

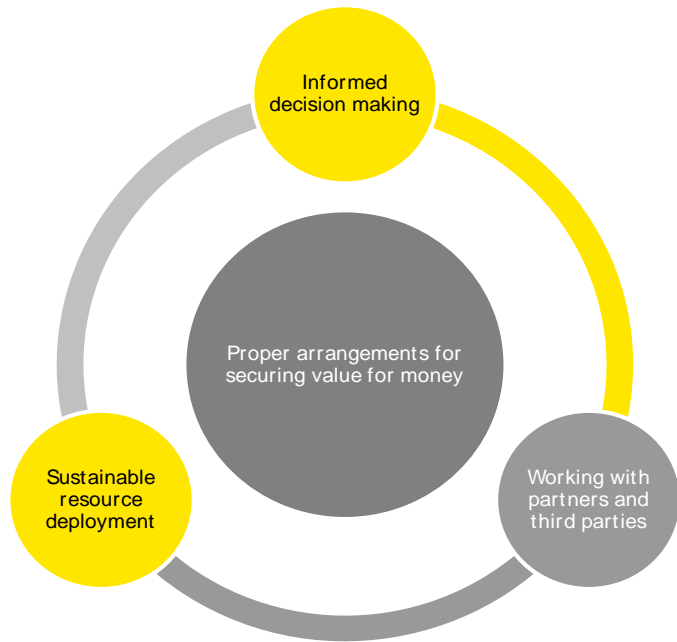
We are currently considering the work of the actuary but adjustments made to the financial statements in respect are likely to have the impact of increasing the net defined benefit pension liability reported by £587,000. Some other related disclosures changes, including changes to the disclosure of sources of estimation uncertainty and post balance sheet events, will also been made.

In addition, the accounts will be adjusted to reflect pension scheme assets at a £1.228million lower value than reported in the draft statements.



05

Value for Money Risks



Background

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

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

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

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

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

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

Overall conclusion

In our Audit Plan we identified one significant risk

- Commercialisation decisions to generate income and maximise the return from assets

The below table reflects the results of work performed in response to the risks in our Audit Planning Report

We have no matters to include in the auditor’s report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

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

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

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

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

What is the significant value for money risk?

Commercialisation decisions to generate income and maximise the return from assets

What arrangements did the risk affect?

Deploy resources in a sustainable manner
Take informed decisions

What are our findings?

We reviewed the following:

- The work of the Council’s previous auditor, KPMG in respect of the due diligence performed on previous commercial acquisitions and determine whether EY needs to undertake further work on decision making arrangements;
- Held discussions with the Council's key officers progress and current position and assumptions on its commercial investments;
- Robustness of assumptions (including assessment of risk and reward) the Council are making from its commercial investments in its 2019-2020 and medium term financial strategy;
- How the Council has taken account of the updates to the prudential guidelines in its capital and treasury management strategies;
- Considered the impact of these developments, if any, in the context of any future re-organisation of local government in Northamptonshire.

Refer to appendix B for our report and findings which were presented to the Monitoring and Audit Committee on the 25th July 2019. We have considered these findings in light of our audit procedures on the Council’s financial statements to date and these still remain valid. We will revisit this conclusion again prior to issuing our audit opinion on the Council’s financial statements.



Other matters to bring to your attention

Looking forward

Local government reorganisation in Northamptonshire has been put on hold for another year. It was decided in May 2019, that the shadow unitaries will now operate from 1 April 2020, rather than 1 April 2019 and the two new unitary councils will be fully operational from April 2021.

We will therefore consider preparations for these new arrangements as part of our 2019/20 risk assessment.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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.

The Council falls below the threshold for audit and we have limited procedures to perform in this respect.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

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

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]'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;
- Going concern;
- Consideration of laws and regulations; and
- Group audits (as appropriate).

We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware



08

Data Analytics



Use of Data Analytics in the Audit

Data analytics — Journal Entry Analysis and Payroll Analysis

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all the financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit plan.

Payroll Analysis

We also use our journal entry analyser in our payroll testing of the non-schools payroll. We obtain all payroll transactions posted in the year from the general ledger system and perform completeness analysis over the data, including reconciling the total amount to the payroll system. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



9

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated 5 February 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Monitoring & Audit Committee on 26 September 2019.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors 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 2018 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 overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 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.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	41,337 (Note 1)	41,337	53,685
Total audit	41,337	41,337	53,685
Other non-audit services not covered above (Housing Benefits)	0	N/A	10,904
Fees for additional work	0	N/A	850
Total other non-audit services	0	N/A	11,754
Total fees	41,337	N/A	65,439

All fees exclude VAT

Note 1: As reported in the audit planning report, we anticipate additional fees in relation to the changes in scope regarding significant and other risks identified, and the additional testing arising from this being a first year audit, which is not factored in to the scale fee. We will discuss these fees with management in the first instance, before agreeing them with you and requesting approval from Public Sector Audit Appointments (PSAA).



10

Appendices

Audit approach update

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

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

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- 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

Balance sheet category	Audit Approach in our first year as the Council's auditor
Property, plant and equipment	Substantively test all relevant assertions
Short term debtors	
Short & long term borrowing	
Short & long term creditors	
Other long term liabilities	
Capital grants received in advance	
Reserves	



Appendix B

Our response to the Value for Money significant audit risk reported to the 25th July 2019 Monitoring and Audit Committee

Kettering Borough Council – 2018-2019 External Audit

Executive Summary to the 25th July 2019 Monitoring and Audit Committee on the findings from review of the Council's arrangements for commercial ventures and decisions during the 2018-2019 financial year.

Background

The Council has expanded its commercial activities both inside and outside of their area. It has an ambitious capital and property strategy aimed at becoming more self-sufficient.

The Council holds investment properties in order to earn rental income. This includes two properties which the Authority purchased in 2017/18, at a total cost of £33.638million. This is made up of:

- ▶ Linear House in Derby: £14.861million cost
- ▶ Staples Distribution Centre (shared with Corby Borough Council at 50%): £18.777million cost for the Authority's share

The Authority also acquired two properties during 2018/19:

- ▶ Haylock House in Kettering: £4.575million cost
- ▶ Kingfisher House in Wakefield: £5.523million cost

The aim of these investments is to assist the Council to generate income and reduce reliance on funding from central government, and secure its future financial sustainability.

Audit approach

In response to our significant audit risk in the 2018-2019 External Audit plan, we reviewed the adequacy of the Council's arrangements for commercial ventures and decision making. We considered the alignment of the Council's plans to its strategic and corporate objectives, the adequacy of the governance arrangements and due diligence put in place for each of the individual acquisitions above. We have also considered the robustness of the assumptions the Council is making for future income and receipts associated with its commercial ventures as part of its budget setting and medium term financial planning.

We have reviewed a significant amount of written documentation, either available from the Council's website or provided to us by Council officers.

Findings

The Council's key strategic documents are well aligned. The overall aims of the Council are consistent, creating a balanced depiction of the Authority's strategic goals and plans to achieve them.

The Council has complied with the updated Prudential Framework to produce a Capital Strategy. This Capital Strategy largely observes the Framework's guidelines for content although to strengthen this further it would benefit from a more explicit mention of prudence to be consistent with its Treasury Management Strategy.

In order for each investment opportunity to gain approval, members of the Asset Management Board ('AMB') were introduced to the opportunities in a presentation detailing notable elements of the property, which helped members of the AMB to make more informed decisions. Whilst we found that the minutes of the AMB meetings taken in isolation are not sufficiently detailed to properly evaluate the level of debate or enquiry that occurred in relation to these investment opportunities, these minutes should be read alongside the detailed presentations provided by the officers.

The Council has a risk policy outlining its strategy and approach to risk management. In addition to this it has a risk register for cataloguing risks and their severity, both their "gross risk" and "residual risk". This shows the Council has a proactive approach to risk management, and that there are specific actions in place to mitigate the risks associated with Commercial Investments.

We found that the Council has sought thorough advice from a range of legal, valuation and technical experts for the acquisition of all of its investment properties. The Council are providing some final documentation to us to conclude our audit review of the acquisition of Linear House but notwithstanding this we did not have any significant concerns with the due diligence applied to the decision. Acquisition of investment properties are supported by valuation report carried out by property consultants. For example, this was performed by Lambert Smith Hampton ('LSH') for the Staples Distribution Centre and Kingfisher House, Berry's for Haylock House and JLL for Linear House. These valuations give the Council detailed information about the property, the local environment and a simplistic expected return figure. Additional checks have also been carried out for some of the investment properties. For example, financial due diligence was carried out prior to the investment in the Staples Distribution Centre and a Title Report was commissioned for Kingfisher House. This provides robust management information to help the Council to ensure that it is making informed decisions.

Whilst we find that some Council's obtain external advice to support their financial forecasts for commercial schemes, the Council have decided to do this internally and have an approach that consolidates all the due diligence and advice they have received on the acquisition and how this modelled in to the budget and financial plans. We have no significant concerns on the Council's arrangements to prepare accurate and reliable financial forecasts of its commercial ventures. We found that the assumptions relating to commercial investments within the Medium Term Financial Forecast appear to be reasonable. The changes to the net income figure are in line with the changes to the Council's property portfolio over the past year. Large increases were seen in rental income, premises costs, supplies and services, although the increases appear reasonable.



Appendix B





Our response to the Value for Money significant audit risk reported to the 25th July 2019 Monitoring and Audit Committee

Conclusion




We have obtained sufficient and appropriate evidence to conclude that overall, the Council has sound arrangements in place to make significant commercial decisions. These arrangements should also be looked at alongside the Council having good arrangements in place to achieve its financial sustainability, and resilience. In particular, the Council has achieved £12.8million of efficiencies to date. Whilst we did not identify a significant risk at the planning stage, the work we have undertaken as a minimum as part of our audit procedures to look qualitatively and quantitatively on the Council's financial resilience (which applies sensitivity tests to the Council's level of available reserves, reliance on uncertain income streams, medium term saving requirement, track record on savings and efficiencies) has shown that the Council has good arrangements in place to meet its budget, medium term financial targets and sufficient headroom to address any financial shocks. When we report our final VFM conclusion to the next Monitoring and Audit Committee, we will present a bridge graph to illustrate our assessment of the Council's financial sustainability.

Required communications with the Audit Committee





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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – February 2019
Significant findings from the audit	<ul style="list-style-type: none"> • 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 – September 2019




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Major Local Authorities	<p>For the audits of financial statements of public interest entities our written communications to the Audit Committee include:</p> <ul style="list-style-type: none"> • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant 	Audit Plan – February 2019 and Audit Results Report – September 2019

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Kettering Borough Council’s ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • 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 – September 2019
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • 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 Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. 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 Audit Committee responsibility. 	Audit Results Report – September 2019




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • 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 Authority 	Audit Results Report – February 2019
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors’ objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit Plan – February 2019 and Audit Results Report – September 2019

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and Authority’s policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> • Management’s refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • 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 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit Results Report – September 2019

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – September 2019
Material inconsistencies or misstatements	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – September 2019
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Audit Results Report – September 2019
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan – February 2019 and Audit Results Report – September 2019

Proposed Management representation letter

Management Rep Letter

Neil Harris, Associate Partner, Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Dear Neil

This letter of representations is provided in connection with your audit of the financial statements of Kettering Borough Council (“the Council”) for the year ended 31st March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as of 31st March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

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

A. Financial Statements and Financial Records

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

We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the financial statements. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

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

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

We acknowledge that we are responsible for determining that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

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

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

Management representation letter

Management Rep Letter

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

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

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: **[to be updated by Council]**.

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

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

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

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

Management representation letter

Management Rep Letter

E. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

We confirm that the content contained within the other information is consistent with the financial statements.

G. Reserves

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

H. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss.

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

I. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, Investment Property and the IAS19 actuarial valuations of pension fund liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that the significant assumptions used in making the estimates for fixed assets, the NDR Appeals Provision and Pensions Liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council.

We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Management representation letter

Management Rep Letter

K. Retirement benefits

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

Yours faithfully,

Mark Dickenson – Head of Resources (Chief Financial Officer)

Chairman of the Monitoring and Audit Committee

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About EY

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