



Audit and Governance Committee

A meeting of the Audit and Governance Committee will be held in the Council Chamber, Guildhall, St Giles Street, on Wednesday 16 June 2021 at 6.00 pm

Agenda

1.	Apologies for Absence and Notification of Substitute Members
2.	Declarations of Interest Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.
3.	Chairman's Announcements To receive communications from the Chairman.
4.	Internal Audit Plan 2021-22 (Pages 5 - 24)
5.	Internal Audit Update (Pages 25 - 34)
6.	External Audit Update (Pages 35 - 52)
7.	Closure of Accounts (Pages 53 - 56)
8.	Work Programme (Pages 57 - 60)
9.	Urgent Business The Chairman to advise whether they have agreed to any items of urgent business being admitted to the agenda.

Catherine Whitehead
Proper Officer
7 June 2021

Audit and Governance Committee Members:

Councillor Cecile Irving-Swift (Chair)	Councillor John Shephard (Vice-Chair)
Councillor Jamal Alwahabi	Councillor Michael Brown
Councillor Pinder Chauhan	Councillor Stephen Clarke
Councillor Jake Roberts	Councillor Danielle Stone

Information about this Agenda

Apologies for Absence

Apologies for absence and the appointment of substitute Members should be notified to democraticservices@westnorthants.gov.uk prior to the start of the meeting.

Declarations of Interest

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates

Members are reminded that any member who is two months in arrears with Council Tax must declare that fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

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Queries Regarding this Agenda

If you have any queries about this agenda please contact Sofia Neal Gonzalez, Democratic Services via the following:

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Or by writing to:

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WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

16 JUNE 2021

Report Title	Internal Audit 21-22 Annual Audit Plan
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1. Purpose

- 1.1. The purpose of this report is to provide the Audit & Governance Committee an opportunity to consider the proposed 21-22 Audit Plan.
- 1.2. The detailed Audit Plan report is attached at Annex A.

2. Recommendations

- 2.1. It is recommended that the Committee provides any comment on the plan at Annex A and endorses it subject to those comments.
- 2.2. It is also recommended that the Committee highlight any areas of focus they wish the service to prioritise within the first six months of the new Council's operations.

3. Issues and Choices

3.1. Report Background

- 3.1.1. Annex A sets out the principles applied in drafting the plan to comply with the relevant professional standards eg Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) etc).

3.2. Issues and Choices

- 3.2.1. The full annual plan (set out within Annex A) is usually structured to reflect the organisational hierarchy. Given we are already part way through this financial year and have an internal audit resource available from the 1 April we have already commenced work again the plan in quarter one and ahead of this meeting. As a result the plan has been compiled as follows:

- The work prioritised in quarter one to provide the 151 Officer assurance on key areas

- The work scheduled for quarter 2
 - The work assessed as necessary for the remaining year
- 3.3. The Committee should note the 21-22 Plan is 'indicative' and subject to change throughout the year. Given this is a brand new organisation where systems and processes will take time to bed down the plan needs to be flexible and able to be changed as required depending on any emerging areas of risk or internal control weaknesses. As a result, the S151 officer will amend the plan if required. Any amendments will be reported back to this Committee as part of the internal audit progress report update.
- 3.4. The Committee should also note the Chief Internal Auditors opinion that delivery of the plan may be challenging given the resources currently available to him.

4. Implications (including financial implications)

4.1. Policy

4.1.1. None

4.2. Resources and Risk

4.2.1. The 21-22 plan provides a basis to ensure sufficient resource is evident to deliver the necessary audit assurance.

4.3. Legal

4.3.1. The completion of an approved Annual Audit Plan is key to ensuring WNC is compliant with its responsibilities under the Accounts and Audit Regulations 2015.

4.4. Equality and Health

4.4.1. None

**Report Author: Duncan Wilkinson
Chief Internal Auditor**

West Northamptonshire Council Audit Plan

2021-22



Audit and Risk Management
June 2021

1. BACKGROUND

- 1.1. The Public Sector Internal Audit Standards (PSIAS) issued in April 2017 defines the service and professional standards for public sector internal audit services.

PSIAS: 2010 - *“The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.”*

PSIAS: 2450 – *“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”*

- 1.2. The shared service Chief Internal Auditor performs the role of Chief Audit Executive for West Northamptonshire Council (WNC).
- 1.3. The Annual Audit plan provides the mechanism through which the Chief Audit Executive can ensure the most appropriate use of audit resources to provide a clear statement on risk management, internal control and governance arrangements.
- 1.4. The Accounts and Audit Regulations (2015) sets out that:
A relevant authority must ensure that it has a sound system of internal control which—
(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
(b) ensures that the financial and operational management of the authority is effective;
and
(c) includes effective arrangements for the management of risk.

And that:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and*
(b) prepare an annual governance statement

- 1.5. For WNC, Internal Audit Services is provided by, a Shared Service arrangement with Milton Keynes Council, Cambridgeshire County Council and North Northamptonshire Council, under a Lead Authority Model, led by Milton Keynes Council, with services managed via delegated budgets. Delegated budgets remain subject to the provisions applicable to all its sovereign / owning Councils i.e. subject to the Accounts and Audit Regulations.

2. Internal Audit Resource

- 2.1. To enable the Chief Internal Auditor to present an annual opinion on the Council's control environment, in normal circumstances adequate resources have to be directed to completing the agreed Plan in line with a target of 95% of that plan.
- 2.2. The level of audit resource available is likely to be a mix of establishment posts and alternative provision. As at May 2021, an interim arrangement was put in place, whilst formal consultation on shared service provision is undertaken in accordance with the Future Northants Blueprint. This has meant that available Internal Audit Resource is limited to the existing staff transferred from the Sovereign Councils and contracts for the West Northants boundary.
- 2.3. The approved blueprint was that WNC would 'host' provision of Internal Audit for North Northamptonshire Council (NNC), within the existing shared service model provided with Milton Keynes Council and Cambridgeshire County Council.
- 2.4. The proposed 21-22 Audit Plan (as set out in detail at Annex A) totals 1,660 days.
- 2.5. Interim arrangements have been applied whilst consultation is pending to:
 - 2.5.1. Apply resources previously within WNC to the WNC plan, whilst
 - 2.5.2. Completing audits on systems applicable to both Councils (West Northants and North Northants) as a single audit providing assurance to both Councils, and
 - 2.5.3. Ensuring that resources do not cross-subsidise either Council.
- 2.6. The 21-22 Annual Plan, consistent with best practice, can be varied to reflect changing risks and pressures. The plan has been drafted considering, in particular, the continuing Covid19 pressures and the Unitary agenda. The estimate of 1,660 days is therefore considered to be a conservative estimate of the days that will be needed.
- 2.7. The plan however, provides the change control mechanism to:
 - 2.7.1. Allow focus to be reprioritised in a controlled way , or
 - 2.7.2. Agree alternative and/or additional funding to resource additional work where planned work cannot be 'sacrificed'.
- 2.8. Given the complexity of unifying multiple Councils into a single Unitary Council the risk assessment to draft the 21-22 plan proposed in this report has sought to consider the:
 - 2.8.1. Known Knowns – E.g. Complexity in administering large key financial systems across individual Councils – Council Tax, Benefits etc; and

- 2.8.2. Known Unknowns – E.g. Implementing robust, consistent controls from the collation and understanding of varying adequacy of governance from across the predecessor Councils.
- 2.9. What cannot be predicted is the Unknown Unknowns. For a stable, single Council those would be reasonably assessed as minimal risk that might be a once in decades issues eg Pandemic. For West Northamptonshire the consolidation of individual services into a single, aligned Unitary Council is considered likely to produce additional unplanned work throughout the first three years, at least.
- 2.10. Those issues have been considered when drafting the 21-22 Audit Plan and the PSIAS requirement that the Chief Internal Auditor gives specific assurance whether there is inappropriate scope or resource limitations evident that prevents the service delivering its professional requirements (PSIAS 1110).
- 2.11. PSIAS 2030 requires the Chief Internal Auditor to ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. PSIAS 2030 also requires that *'Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board'*
- 2.12. This requires:
- 2.12.1. The mix of knowledge, skills and other competencies needed to perform the plan.
The CIA has concluded that this requirement is met by those existing resources and the recruitment to the proposed structure consistent with the Future Northants Blueprint.
- 2.12.2. The quantity of resources needed to accomplish the plan.
The CIA has concluded that this requirement is met for quarter 1, and with the approval of the 21-22 plan will be under appropriate regular review.
- 2.12.3. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.
The CIA has concluded that this requirement is met within the limitation set out in 2.11.2 above. Available resources are prioritised to high risk issues.
- 2.12.4. The risk-based plan must explain how internal audit's resource requirements have been assessed.
This report sets out the scope of 21-22 planned audit work and has been developed with key stakeholders including the 151 officer. In the CIA's opinion the full year plan sets out a reasonable scope to meet PSIAS requirements.
- 2.13. It is highlighted that the current interim arrangements and the uncertainties of the first year's operations within a single, new Unitary Council, provide a basis that the adequacy of Internal Audit resources will need to be kept under regular review.

3. Developing the Audit Plan

- 3.1. The PSIAS issued in April 2017 requires a risk-based audit plan to be developed and to receive input from management and the 'Board' (usually discharged by a Council's Audit Committee) on those plans. For the Shared Service, the Board functions would be discharged through both the Management Team and the individual Council's Audit Committees.
- 3.2. The Audit Plan must also consider the relevant Risk Register information and review various sources of information and discuss priorities with senior managers. Based on these conversations, and review of corporate documents and risk registers and an understanding of the organisation, the annual plan is developed.
- 3.3. The professional requirements placed on Internal Audit do not change due to the current covid 19 pressures. These are reflected through the Council's risk environment to inform the work of IA during 2021/22.
- 3.4. The Chief Internal Auditor's overall annual opinion on the control environment will be based on the Control Assessment methodology used to form the required Audit Opinion for each audit assignment included in the plan, as set out in full at Section 4 below. In summary it has three key elements:
 - Assess and test the CONTROL ENVIRONMENT,
 - Test COMPLIANCE with those control systems, and
 - Assess the ORGANISATIONAL IMPACT of the area being audited.
- 3.5. In simple terms, to achieve the above, every audit:
 - Identifies/documents the agreed objectives of the audited system/ service purpose
 - Evaluates the control systems / governance arrangements to ensure they:
 - a. align to the delivery of the service purpose
 - b. measure performance effectively
 - c. mitigate the threats to achieving the service purpose
 - Tests the adequacy of operation of controls to achieve the agreed objectives / service purpose.
 - Agrees findings and recommendations for improvements with Management.
- 3.6. An Annual Audit Opinion is then constructed based upon the year's plan work and formally reported as appropriate.

4. THE 2021-22 ANNUAL PLAN

- 4.1. The formation of the unitary Councils with new systems as well as continued operation of some District and Borough Council functions during the first year means the 2021/22 Audit Plan is very different in comparison to previous years audit plans. It was always likely to be different, with additional audit requirement to verify adequacy of processes as a new organisation, and to take proper account of assurances needed, given the ongoing

challenges created by Covid19. Creation of the Children’s Trust as a separate entity, to provide services under a supplier/customer Service Delivery contract adds to the complexity of the plan environment.

- 4.2. During quarter one of the year, it is acknowledged that the delivery of ‘safe and legal’ for the Council will result in a necessary organisational focus of simply operating as a new Council. The ability for audits to be completed in Q1 will be limited as staff / services will probably not be able to accommodate that and/or systems will not be embedded sufficiently to test.
- 4.3. In light of this, it has been agreed with the S151 Officer that audit work for Q1 will therefore need to focus on probative assurance of initial key controls. This work will then evolve into plan work, during quarter two. The proposed annual plan of audit days is detailed in Annex A and it is to be noted that delivery of the full plan will be dependent on there being sufficient audit resource.

	Audit Days	Audit Quarter/Activity
	265	Quarter 1
	300	Quarter 2
	615	Quarters 3/4
	75	Grant Certification
	190	Anti -Fraud & corruption
	125	Advice, Guidance, Committees, AGS
	100	Contingency
TOTAL	1660	

- 4.4. Annex A includes columns to enable indicative timings and links to the Strategic Risks to be inserted. These will be inserted when quarter one work is largely complete and risk information approved by the Executive Leadership Team (ELT).

Returning to an approved 2021-22 Audit Plan

- 4.5. Usually the plan is underpinned by a consultation exercise, review of the risk registers and is submitted to the Audit Committee for consideration. Any plan must be sufficiently flexible to enable assurance over current risk areas, as well as emerging risks, and those risks which are yet to be identified.
- 4.6. It has not been possible to complete a consultation exercise in creating this plan except with the Finance Director and given the level of changes with any new organisation, it is already evident that the risks applicable throughout 2021/22 will continue to emerge. Any plan formalised in detail before Sept would be subject to significant change.
- 4.7. This is particularly relevant in year one of the new organisation. The plan set out below is therefore only indicative as it:
- Identifies the known knowns to be audited, e.g. governance and financial systems. *(20-30% of expected work, mostly key financials)*
 - Takes account of the known unknowns i.e. those new or emerging issues within an organisation. *(10-20% reflecting move to Unitary)*
 - Can be flexible for the unknown unknowns that may arise during the year. *(expected to present variable challenges consuming the majority of Audit resource to 31/3/22)*
- 4.8. Inevitably, the potential for risks and unknowns is increased during initial periods of change. The combination of four councils into one creates a material challenge to the audit regime. When combined with Covid19 pressures the audit challenges are unique, unprecedented and extremely difficult to predict / plan.
- 4.9. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation during the period of change to new Unitary and as services recover from and/or continue to address Covid19 pressures.
- 4.10. The Audit Plan is dynamic and designed to be flexible if new risks emerge. This will be tested in 2021/22. Audit service delivery will be monitored throughout the year and key issues will be reported to the Leadership Team and the Audit Committee each quarter. It is anticipated that the plan will be changed to reflect emerging risks and the scope of individual assignments reduced or the audit removed from the plan in areas where it is felt the risk impact has abated, or to reduce disruption to delivery of critical services. All proposed changes to the plan will be reported to the Audit Committee.
- 4.11. Changes to the Plan will be proposed following dialogue with the Executive Leadership Team, while ensuring Internal Audit is still able to discharge its professional duties in relation to its ability to provide an assurance opinion on the Council's control environment.

- 4.12. The quarter one schedule of work for WNC will be delivered from a combination of the Audit Team resource, resources from Shared Service and resource from the Existing Audit contract.

Emerging Plan Pressures

4.13. **Childrens Trust (formed 01/11/20)**

The Shared Audit Service will provide services to the Trust from 1st April 2021. The scope of work required has been agreed and this does create a potential pressure given the limitations and other pressures on IA resources currently. This should not create any conflict of interest. Information confidentiality arrangements will be in place that provide an ability for the Councils to receive assurances from Internal Audit (IA) without needing to share the data. It is possible specific issues may create a conflict of interest for IA and that situation will be constantly reviewed and formally considered annually.

4.14. **Interim Arrangements**

The blueprints and agreed plans identify that the shared Internal Audit service will provide Audit, Risk and Counter Fraud services to both of the new Councils, hosted by the West Northamptonshire Council.

The agreed plans have been put on hold while discussions are ongoing to determine a way forward. The shared service Chief Internal Auditor (CIA) has been involved in detailed dialogue with the Finance Directors on how best to deliver the Service under the interim arrangements.

This is a substantial piece of work and the CIA is attending monthly meetings with the new Council s151 Officers to progress these issues so that they can be submitted into the relevant decision- making bodies.

4.15. **Provision of Internal Audit Services under the Lead Authority Model**

As at 1st Dec the LGSS model closed. Some services were repatriated into their host Councils (i.e. disaggregated). Other services were agreed within the Future Northants Blueprint that would continue delivery to both WNC and NNC as shared services under a lead authority model (ie some services managed and led by WNC, some by Milton Keynes Council and others by Cambridgeshire County Council).

Internal Audit remains a shared service of all 3(4) Councils. It will provide Internal Audit, Risk and Counter Fraud services to both the West and North Northamptonshire Councils with staff employed by West Northamptonshire.

Fraud Referrals and Outcomes

- 4.16. **Fraud referrals:** Due to the volume of referrals and the wide range of issues raised, risk assessments are conducted in order to prioritise resource or transfer these to other

appropriate bodies such as the Department for Work and Pensions (DWP). Some referrals are rejected if there is insufficient basis or evidence held to enable further action but are recorded on the Internal Audit case management system. As such, should further information subsequently be received from another source, for example, this intelligence will be available. When a referral is received and assessed as requiring investigation, actions will be undertaken to establish any error or fraud including establishment of the facts and the evidence available and seeking a suitable resolution.

- 4.17. Number of cases referred, number of cases closed and the outcome of investigations undertaken by the Fraud team brief details of ongoing investigations are reported on to Audit Committee on a quarterly basis as part of the Internal Audit progress Update
- 4.26 **National Fraud Initiative 2020/21:** Internal Audit and the Counter Fraud team also support the Council in assisting with the work on the National Fraud Initiative (NFI), highlighting the increased exposure to fraud associated with the C19 situation which has been actively targeting councils grant application schemes and other cyber fraud.

5 AUDIT METHODOLOGY

- 5.1 As set out above the Control Assessment methodology used to form the required Audit Opinion has three key elements:
- Assess and test the CONTROL ENVIRONMENT,
 - Test COMPLIANCE with those control systems, and
 - Assess the ORGANISATIONAL IMPACT of the area being audited.

5.2 The Audit Opinions are considered against the detailed criteria set out below.

Control Environment Assurance	
Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although errors have been detected
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended and significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

NB in response to requests from multiple clients, the criteria above for the audit opinions are being reviewed, to provide a greater level of granularity. Revised opinion criteria will be reported to Committee in due course.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

5.3 The Internal Audit Service also operates within an approved Audit Charter (as required by PSIAS) and maintains a process Audit Manual to provide a Quality Assurance process. Both the Charter and Manual are available by request to dawn.patton@milton-keynes.gov.uk

6 RISK REGISTER

- 6.1 The WNC corporate risk register will be examined as a key source of intelligence to inform the Audit Plan going forward (consistent with PSIAS requirements). The Organisation's Strategic risks are currently being reviewed.

2021-22 Draft Audit Plan

Audit	Audit Days	Indicative Timing/status	Corp Risk link	Scope / Coverage
Quarter 1 Work:				
Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits focus on the systems with the highest financial risk. These reviews give an indicative opinion as to the effectiveness of financial management procedures and arrangements to ensure the integrity of the accounts.				
General ledger/Main Accounting	30			To provide assurance that the controls in place over activity through the general ledger are adequate in design and function appropriately in practice
Accounts Payable	20			To provide assurance on adequacy of controls over supplier data management and payments
Local payment systems review including GPC	50			To provide assurance that effective controls are in place for spend incurred through GPC and no ERP expenditure
Accounts Receivable – debt recovery	20			To provide assurance on the effectiveness of controls over debt collection
Bank Reconciliations	10			To provide assurance on the adequacy of robustness of arrangements for ensuring timely and appropriate reconciliations
Treasury Management	15			Review of effectiveness of controls over treasury management activities.to be revisited later in year.
Sundry Income/Cashflow	10			Review of controls over tracking income flow from source to ERP – leisure; cementry; etc
Payroll	25			To evaluate the effectiveness of the key controls for the payroll system and provide some assurance (given the limited period in operation) of the processing of payroll transactions. Transactions to be also checked later in the year.
Employee Checks/records	10			Adequacy of system for ensuring appropriate recruitment checks are undertaken and properly documented – DBS/right to

				work/qualifications etc. for staff transferring to new Council.
IT Financial Controls – ERP user	10			Checks on effectiveness of system controls over data integrity-completeness, accuracy.
Records Consolidation	10			Review of adequacy of the procedures adopted by West Northamptonshire Council for consolidating important underlying records of the legacy Councils from which it has been formed.- Various records
Legacy Bank Accounts	10			a review of the procedures adopted by West Northamptonshire Council for consolidating the bank accounts of the legacy Councils from which it has been formed
Establishment controls	10			Assurance over arrangements for ensuring posts/grades/pay rates are in line with agreed guidance.
Policies and Governance and Procedures	5			review to ensure that policies and documents have been prepared and approved by West Northamptonshire Council to ensure legal and other regulatory compliance
Covid 19 Grants verification/certification	25			
Closure of Sovereign Accounts-year end reports	25			Production of AR/AGS 2020/21 for Sovereign Councils
Total Audits days	265			
Proposed Quarter 2 work				
Financial Management	15			Review of effectiveness of arrangements over budget monitoring.
Quarterly Risk Register review and testing	20			To provide assurance over the arrangements for complete and accurate transfer of key balances to new authorities.
General Ledger transactions testing	20			Review of Financial transactions to include · Suspense accounts – confirm cleared by relevant officers on a timely basis · Journals – check for supporting documents and that they are

				properly approved · Key control accounts recs
Children's Trust Service Delivery Contract Monitoring	20			Review of adequacy of clientside monitoring of the contract with the Trust review as part of close down contracts arrangements
Supporting Families - Assistance	10			Assistance by West Staff to SF project
Safeguarding Vulnerable Adults	15			Provide assurance on adequacy of arrangements for responding to safeguarding concerns and for managing and tracking safeguarding of vulnerable adults.
NPH – Client monitoring	20			Review of arrangements for monitoring performance of NPH – housing ALMO.
Procurement contract management	20			A review of the Council Procurement Rules and assessing compliance with this across the Council-tendering process, waivers; etc
Planning Applications x3	30			To provide assurance on controls over planning application processing.
IT Systems security – access rights and password configuration management	15			Review to verify validity of access rights allocated across corporate network and key systems – review of sample of access control lists.
Leisure Services Establishment management	15			Review of contract monitoring of service delivery
Housing Allocations	25			To provide assurance on adequacy of Home Choice applications / allocations systems
Licensing – Taxis and others	20			Review of adequacy of controls over issuing, renewals and income collection
H&S risk assessments	20			Review of arrangements for risk assessing H&S within premises; personal safety; tendering processes.
Cybersecurity Essentials (Ten steps - 5&6&7)	20			Review of IT security controls over: Network perimeter security; Malware prevention; mobile working arrangements
Information Governance	15			Review of controls over governance arrangements for Data management.

Total Audit Days	300			
Proposed Audit Work for remaining 6 months of the year				
From Safe and Legal to BAU	30			Review of adequacy of arrangements for moving from safe and legal to BAU
Quarterly Risk Register review and testing	20			Quarterly review of risk register and testing adequacy of controls
Financial Management – MTFP	20			Mid term planning and resilience
General ledger Transactions testing	20			Review of Financial transactions to include · Suspense accounts – confirm cleared by relevant officers on a timely basis · Journals – check for supporting documents and that they are properly approved · Key control accounts recs
Children’s Trust Service Delivery Contract Monitoring	10			Review of adequacy of client side monitoring of the contract with the Trust review as part of close down contracts arrangements
Council Tax – Districts & Boroughs	35			
NDR -Districts & Borough	35			
Housing & Ctax Benefit D&B	65			
Customer Services/complaints monitoring	15			To review robustness of the process for oversight and monitoring of progress and outcomes of complaints made.
Schools Financial Value Standards	30			
Adult Social Care – assessment of care needs and financial plans	25			Adequacy of process managing Referrals, assessments and determining financial plans - allocations
Contract management – Residential Placements	20			Review to provide assurance on adequacy of arrangements for managing contract to ensure appropriate service delivery.
Planning Applications -S106 income	20			
Contract Management – Parking	20			Review of monitoring of contract for management of parking – as

				appropriate, impact of C19 on contractor etc.
Capital Projects	20			Capital Project approval process and effectiveness of project management process – Review of key capital project.
Contract Management - Highways	20			Review of adequacy of contract management and performance monitoring.
Pensions	15			Review of adequacy of pension administration and monitoring arrangements
North/West Partnership Liaising	25			Review effectiveness of arrangements for ensuring smooth working of the Unitary partnership – protocols; delivery framework, SORPS.
IT Disaster Recovery	20			Review of adequacy of disaster recovery arrangements.
IT applications Security – Adult Social care database	20			Review of security configuration for new Adult Social Services system
People Services - Home Improvement Grants	20			A review of the grant application process and facilitation of grant works (DDC had Care & Repair Service)
Performance management framework	20			Review of adequacy of systems for producing and reporting on KPIs across the Council.
GDPR – Record Retention Policy	20			Provide assurance on process for ensuring corporate wide compliance with Policy
Emergency Planning	20			Review of arrangements in place to ensure EP will be effective and adequate - lessons learnt from pandemic.
Asset/Property Management (incl inventories)	15			Assurance that process for ensuring key property assets are identified, documented, and secured.
Land & Property Sales & Acquisitions	20			
Sundry Income Cashflow	15			Review of controls over collection of commercial rents; building control fees and other sundry income
Total Audit Days	615			

Grant Certification:				
Internal Audit is asked to certify a range of grants over the year, the most significant of these relates to Troubled Families.				
Various Legacy grants (excluding C19 Business grants)	30	Q2-Q4		Identified grants paid to NCC to be certified and returns submitted after 1/4/21. Need to identify these
Various Grant certification	45	Q2-Q4		Certification of grants paid to WNC
Total Grants	75			
Anti-Fraud and Corruption:				
Allocation of time for the risk assessment and investigation of fraud referrals. If significant fraud is identified in year NLT will be consulted as to the best way to investigate as well as, where appropriate, how to improve the control environment to reduce the risk of re-occurrence				
National Fraud Initiative	35	In progress		It is understood that during the year a new data matching release will be made and we will undertake data matching to identify any potential investigations.
Proactive Fraud Reviews	40	On going		Allocation of time to assess alleged fraud and complete any investigation that has not been referred to local management.
Reactive Fraud Investigations	75			
Input to No recourse to Public Funds/Trouble Families	25			
Fraud Risk Assessments and policy and procedure review	15			Annual review of key fraud related policy and procedure at NCC for referral to the Audit Committee
Total Anti-Fraud and Corruption	190			
Governance, Advice and Reporting:				
To effectively manage the service time needs to be allocated to ensure that management activity can be completed.				
Follow-Up of Agreed Actions	20	On going		A key aspect of effective audit is ensuring that the actions that have been agreed are followed up to ensure that they have been

				implemented to reduce key organisational risks.
Ad Hoc Requests for Advice and Guidance	45			Providing support and guidance to staff and management on internal control and audit matters, potentially including attendance at key meetings relating to control and assurance. Assisting with AGS
Audit Committee Reporting	20			Production and presenting Audit reports at Committee Meetings.
Audit Committee Support	20			Committee planning and member training
Management Reporting	25			Reporting on Audit, Risk and Fraud matters to NLT, including attendance at NLT and the DMT's to present progress and to maintain an effective understanding of local pressures that may affect the Audit Plan. This includes an allowance for the Internal Audit Annual Opinion.
Audit Plan	25			In-year audit plan amendments and adjustments to the plan to reflect new unitary arrangements.
Total Governance, Advice and Reporting:	125			
Contingency	90			
Spreadsheet Import Payments Project -15days				
TOTAL AUDIT PLAN	1660			



WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

16 JUNE 2021

Report Title	Internal Audit 2021-22 Update Report
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1. Purpose

- 1.1. The purpose of this report is to provide a regular, periodic update on work delivered by the Internal Audit & Counter Fraud team, as at 31st May 2021.

2. Recommendations

- 2.1. That the report be noted.

3. Issues and Choices

3.1. Report Background

- 3.1.1. Best practice (Public Sector Internal Audit Standards and the Local Government Application Note) provides that the Council's Audit and Governance Committee (AGC) should receive regular reports on progress to deliver the approved Annual Audit Plan.
- 3.1.2. Whilst the WNC AGC has only been able to consider the 2021-22 Audit Plan at today's meeting, consistent with best practice this report sets out the work in progress to give assurance that the service is delivering work to provide assurance to the Council.

3.2. Issues and Choices

- 3.2.1. The progress update is attached at Appendix A. The report is structured to provide:
- Progress of planned audits for Q1
 - A summary of referrals (and outcomes) to the Counter Fraud team
 - A summary of any other work



- A summary of resource issues / assurance.

4. Implications (including financial implications)

4.1. Policy

- 4.1.1. Best practice provides that the AGC monitors progress against the IA Annual Plan. This report also meets the agreed IA Charter

4.2. Resources and Risk

- 4.2.1. As set out within the report

4.3. Legal

- 4.3.1. This report, through an effective Internal Audit service ensures that WNC meets its obligations under the Accounts and Audit Regulations 2015.

4.4. Equality and Health

- 4.4.1. None

**Report Author: Duncan Wilkinson
Chief Internal Auditor**

Internal Audit Update Report
APPENDIX A

*Internal Audit and Fraud Progress
Update - Q1*

DUNCAN WILKINSON, CHIEF INTERNAL AUDITOR

16 June 2021

1 Introduction

- 1.1 This progress report provides stakeholders, including the Audit Committee, with a summary of Internal Audit and Counter Fraud activity undertaken for the period 1 April 2021 to 31 May 2021. In recognition of the high levels of changes arising from the formation of West Northamptonshire Council, in April 2021, a schedule of quarter one audits focusing on giving assurance over key financial processes during the early stages of the year, was agreed with the Executive Director of Finance, as part of the overall Audit Plan.
- 1.2 The quarter one schedule of work aimed to provide assurance over arrangements in place for consolidating information from the four sovereign Councils as well as new/continuing processes.
- 1.3 **Annex A** (page 7) provides the background and context for how Internal Audit operates including how governance is tested and evaluated and what the relevant Audit Opinions mean.
- 1.4 It is also highlighted that progress for quarter 1 of 2021-22 must have due regard to the work brought forward into April (and May) to close 2020-21 audit work across all sovereign councils and consolidate audit information (eg Annual Audit Opinions etc).

2 Progress summary

2.1 Plan Progress – Section 3 below

As at 31 May 2021 of 15 audits:

- 7 audits on the agreed Q1 schedule of work were at fieldwork stage
- 7 audits on the agreed Q1 schedule of work were at planning stage, with terms of reference agreed
- 1 audit has yet to be started

2.2 Implementation of Recommendations - Section 4 below

A record of recommendations not implemented by the sovereign Councils and carried forward for implementation by West Northamptonshire Council (WNC) is being collated and reviewed and will be reported to Committee in July 2021.

2.3 Counter Fraud - Section 5 below

21 WNC referrals were recorded by the Counter Fraud Team, since 1st April 2021.

2.4 Other work – section 6 below:

Internal Audit Team have been working to assist the Council with the new governance set up. This has included planning training and delivering training to new members of the Audit Committee.

2.5 Service Resources and Performance– Section 7 below

The service is currently working to interim arrangements and while there is sufficient resource to deliver the Q1 schedule of work, the permanent service structure remains delayed and therefore resource availability to deliver a full year's plan to support the Chief Internal Auditor's opinion remains contingent on this.

3 Progress against Quarter 1 schedule of work

- 3.1 A short-term target for Internal Audit is to complete its plan of work for Q1 by the 30 June 2021. These audits have been agreed with the s151 Officer to provide a focus on key controls and assurance on their operation in first few months of the Council's operations.
- 3.2 The Chief Internal Auditor and the s151 recognise that the delivery of the first years audit plan will face unique challenges. Realistically it will require time for service structures and responsibilities to be understood and also services themselves are facing challenges within their areas from the new organisational requirements combined with ongoing C19 issues that impact on their ability to support an audit. These factors are particularly relevant for the audits to be progressed in April, May and June and are considered likely to create some difficulties / delays in progressing individual audits.
- 3.3 The table below details all of the Quarter 1 schedule of work and their status

	Assignment	Audit Status
1	Consolidation of key records	Fieldwork in progress
2	Legacy Bank Accounts	Fieldwork in progress
3	Key Policies and Procedures	Fieldwork in progress
4	ERP IT users	Fieldwork in progress
5	Government Procurement Card	Fieldwork in Progress
6	Bank Reconciliation	Fieldwork in Progress
7	Business Grants	Fieldwork in Progress
8	Accounts Receivable – Debt management	Planning
9	General Ledger	Planning
10	Accounts Payable	Planning
11	Treasury Management	Planning
12	Payroll	Planning
13	Accruals	Planning
14	Income	Planning
15	Establishment checks	Not Started

4 Implementation of Management Actions

- 4.1 As detailed above, an exercise is in progress to consolidate outstanding recommendations brought forward from the sovereign Councils and to identify the relevant responsible officers within the new Authority. A consolidated Corporate Action Tracker is due to be presented to Audit Committee in July 2021.
- 4.2 Committee should note that as this will be the first Corporate Action Tracker record, for WNC, the majority of recommended actions will be in the process of being followed up or the action date has not been reached.

5 Counter Fraud Update Counter Fraud Update

- 5.1 Fraud cases are risk assessed, to assess whether detailed investigations are merited or alternative options to progress matters are more appropriate. Similar to the above, an exercise is in progress to consolidate all live cases as at 1st April from within sovereign Councils.
- 5.2 The table below sets out the cases referred to the Counter Fraud team during the period 1 April 2021 – 31 May 2021 and the outcomes achieved are detailed.

Fraud Type	No of Referrals	Status	Outcomes (1/4/21 -31/5/21)
Blue Badge misuse	5	Closed	Risk assessed and referred on to Parking Services
Housing & Ctax Benefits	11	Closed	Referred on to Department for Works and Pensions
Council Tax – single Persons discount	1	Closed	Risk assessed and referred on to Revenues and Benefits Team
Bank Mandate	1	Draft report	Investigated and draft report issued to Director of Finance. Issues to be considered within Internal Audit review within Q1.
Homelessness	3	Fieldwork	Being assessed

6 Other work undertaken

- 6.1 The Chief Internal Auditor has been working with the Executive Director of Finance to ensure that members new to the committee are trained on the role of the Audit Committee and to ensure that the committee is well supported.

7 Service Performance

7.1 Plan completion and productivity:

An internal Audit Plan for the full 2021/22 year is submitted to the Audit & Governance Committee for approval at the 16th June meeting.

In a normal year, the expected performance target is 95% of the Annual Plan to be completed to draft report stage by 31 March and 100% to draft report stage by 30 April.

Auditor productivity is measured with a target of 90% productivity (ie 90% of an Auditors time being allocated to client work ie auditing).

These can be measured after the approval of the plan, albeit it is highlighted that the Audit Plan for WNC is expected to change during the year, and the quarter one work is illustrative of a need to focus on providing focussed assurance on specific areas of control.

The AGC will be informed of all changes to the plan once approved.

7.2 Client satisfaction

During the year, customer surveys will be issued to Audit clients at the end of the audit assignments. The performance measure target in relation to customer surveys is 100% customers record satisfied or better.

Internal Audit Context and Background

Development of Audit Plans

The changing public sector environment increasingly necessitates an ongoing re-evaluation of the type and level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council.

The Chief Internal Auditor must provide an annual internal audit opinion on the entire internal control environment based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

To support this, internal audit must develop and deliver a risk-based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work, which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.

The WNC Audit Plan is developed from an understanding of the risks facing the Council. The Corporate Risk Register will be used as a key source of information, as is the Internal Audit risk assessment of the organisation.

In developing the plan, Internal Audit (IA) ordinarily consults services, Senior Managers, Management Team and the Audit Committee. Given the creation of the new organisation this has been more limited than would usually be the case for 2021-22. The Audit Committee then considers the plan. For the 2021/22 plan, this occurred at the June 2021 meeting.

The Audit Plan remains under frequent review both in terms of completion and its scope. Modern auditing requires the plans remain flexible to accommodate changes in the risk profile of the Council throughout the year.

The 2021/22 plan is based on *assurance blocks* that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. For each *assurance block*, the most appropriate level of coverage necessary to provide the most effective annual assurance opinion and added value to the organisation has been developed. The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and making every penny count.

How Controls are Audited and Evaluated

There are three elements to each internal audit review. Firstly, the CONTROL ENVIRONMENT is documented and assessed to determine how the governance is designed to deliver the service's objectives.

IA then needs to test whether COMPLIANCE is evident in practice.

Finally, IA undertakes further substantive testing and/or evaluation to determine the ORGANISATIONAL IMPACT of weaknesses found.

The tables below outline the criteria for assessing the above definitions:

Control Environment Assurance	
Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance	
Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.



Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Specifically for Grant certifications, definitions are used are as follows:

Opinion for Grant Certifications	
Level	Definitions
Assurance Given	The claim as certified was found to be in compliance with the grant conditions, subject to any observations reported.
No Assurance given	The claim was not certified as it was found to be not in compliance with the grant conditions.



WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

16 JUNE 2021

Report Title	External Audit Progress Update
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1. Purpose

- 1.1. The purpose of this report is to provide an update to the Committee from external auditors Ernst and Young

2. Recommendations

- 2.1. It is recommended that the Committee notes the content of this report

3. Issues and Choices

Information

- 3.1 At each Audit and Governance Committee it is intended that the External Auditor will give a verbal or written update on progress.
- 3.2 For the financial year 2021-22 Grant Thornton have been selected as our external auditors. However, the external auditors for all of the predecessor councils was Ernst and Young and where we are discussing previous years accounts Ernst and Young will be the relevant external auditors.
- 3.3 Attached are three documents from Ernst and Young for consideration and discussion:
- Outline plan for the predecessor areas of Daventry District Council and South Northamptonshire Council
 - A letter from Janet Dawson (Ernst and Young Partner) setting out the scheduling for 20-21 audits
 - A letter from UK Head of Audit referred to in Janet's letter
- 3.4 Representatives from Ernst and Young will be in attendance to present the report and respond to any queries members may have.

4. Implications (including financial implications)



**West
Northamptonshire
Council**

4.1. Policy

4.1.1. None

4.2. Resources and Risk

4.2.1. None

4.3. Legal

4.3.1. None

4.4. Equality and Health

4.4.1. None

**Report Author: Martin Henry
Executive Director – Finance
S151 Officer**



Daventry District Council and South Northamptonshire Council

Outline Audit Strategy

3 June 2021

Year ended 31 March 2021



Private and Confidential
Audit and Governance Committee Members
West Northamptonshire Council

3 June 2021

Dear Audit and Governance Committee Members

Outline 2020-2021 Audit Plan for Daventry District Council and South Northamptonshire Council

We are pleased to provide an external audit progress report to the inaugural meeting of the West Northamptonshire Council Audit and Governance Committee. We thought it would be helpful to provide new members of the Audit and Governance Committee with an overview of our strategy for the 2020-2021 external audits of the now demised entities of Daventry District Council and South Northamptonshire Council for the financial year ended 31st March 2021.

Our audit planning and risk assessment procedures for each entity are ongoing. We will finalise our audit planning reports for each individual entity during the course of June and July 2021 and will provide these to the Chief Financial Officer. Once agreed, we are content for the final audit plans to be circulated to Committee members. We currently expect to report the results of our audit procedures on each of the Council's 2020-2021 financial statements and value for money arrangements to the Committee meeting on 29th September 2021. The audit timetable for each of the Council's financial statements is being finalised. We will notify the Chief Financial Officer and his finance team of our proposed scheduling for each entity's external audit before 30th June 2021.

Our outline Audit Strategy sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the auditing standards and other professional requirements. It also aims to ensure that our audit is aligned with the Committee's service expectations. We summarise our initial assessment of the key risks driving the development of an effective audit for the Councils.

This report is intended solely for the information and use of the Audit and Governance Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you in June as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley, Partner-in-Charge for South Northamptonshire Council, and Neil Harris, Partner-in-Charge for Daventry District Council.

For and on behalf of Ernst & Young LLP



Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus indicative at the two Councils at this stage of planning	Risk identified	Change from PY	Details
Misstatements due to fraud or error (Risk of management override)	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	As noted above, under ISA 240, management is in a unique position to perpetrate fraud through the override of controls. We have considered the main areas where management may have the incentive and opportunity to do this. We have identified the inappropriate capitalisation of revenue expenditure on property, plant and equipment as an area of risk, given the extent of the Council's capital programme.
Valuation of Property, Plant and Equipment and Investment Properties	Designation of significant or inherent risk to be finalised for each entity	No change in risk or focus	<p>Property valuations (including Property, Plant and Equipment (PPE) and Investment Properties) represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures, with specialist support as appropriate, on the use of experts and the assumptions underlying fair value estimates.</p> <p>The current economic uncertainty caused by Covid-19 has significantly increased the risk that property asset valuations (based on market conditions) may be materially misstated.</p>

Overview of our 2020/21 audit strategy (cont.)

Audit risks and areas of focus			
Risk / area of focus indicative at the two Councils at this stage of planning	Risk identified	Change from PY	Details
Risk of fraud in revenue recognition – Rental income from Investment properties and commercial assets	Fraud risk – to be confirmed following the completion of planning procedures	Possible change in risk for Daventry District Council	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We will evaluate which types of revenue and transactions may give rise to this risk: this could include the recognition of rental income from commercial properties if material and the extent to which the Council relied on commercial property rental income as a source of financing for its operations in the 2020-2021 financial year.
Pension liability valuation	Inherent risk	No change in risk or focus.	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements for the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item, and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and, in the current uncertain economic environment, we consider this to be a higher inherent risk, due to the nature, volume and size of the transactions.</p>
Going Concern Disclosures	Inherent risk	No change in risk or focus	<p>We will review the appropriateness of the Going Concern disclosures in accordance with the revisions to auditing standard (ISA 570). Recognising that we are now reporting on demised entities' financial statements for the financial year ended 31st March 2021, we will review the appropriateness of the going concern disclosures for West Northamptonshire Council for at least 12 months from the date each financial statements is authorised for issue. This will take into account:</p> <ul style="list-style-type: none"> • Management's assessment on the continuity of service provision. • Projected viability ("available to use" reserves) and cashflow forecasts for the going concern period • Our stress testing of management's assessments and key assumptions. • Outcomes from our routine consultation procedures with our professional practice team.

Overview of our 2020/21 audit strategy (cont.)

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Recognition of grant income associated with Covid-19	Inherent risk	New area of focus For 2020/21	The Council's have received significant additional funding in the form of grants as a result of Covid-19. The Council's need to ensure that it has recognised and accounted for these grant appropriately, taking into account any associated restrictions and conditions. We will consider the Council's judgements on material grants received as to whether it is acting as an agent or principal.

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued on the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions, or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether or not there is a significant risk. We may also see the number of significant risks we report in respect of accounting estimates increase because of the revised guidance. The changes to the standard may affect the nature and extent of information requested and will probably increase the level of audit work required.

Overview of our 2020/21 audit strategy (cont.)

Outline materiality levels based on audited 2019-2020 financial statements for Daventry District Council (DDC) and South Northamptonshire Council (SNC)

Planning materiality
£831k DDC
£769k SNC

Consistent with our approach last year, we calculate our planning materiality at 2% of the Council's gross expenditure. We will revisit the appropriateness of this level throughout the audit and our understanding of the implications from Covid-19 on the Council's viability and investments.

Performance materiality
£623k DDC
£577k SNC

Performance materiality represents 75% of planning materiality and is consistent with our approach last year. This takes account of our expectation of misstatements and the effectiveness of the Council's internal control environment, based on last year's experience and reflecting the lower level of errors detected in the 2019/20 financial statements .

We will revisit the appropriateness of this level when we receive the draft financial statements. This will take account of the control environment for preparing the accounts and supporting working papers as a result of remote working arrangements introduced and those which remain in force during the course of the audit in response to Covid-19.

Audit differences
£42k DDC
£37k SNC

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than the levels shown here. We will communicate other misstatements identified where they merit the attention of the Committee. This level is driven by our calculation of planning materiality and will change if we revise it during the audit.

Timeline

MHCLG have agreed, after consultation, that the publication of audited accounts to 30th September was appropriate and that the removal of the common inspection date, requiring instead that the draft accounts be published no later than 1st August, was also appropriate. The Accounts and Audit (Amendment) Regulations 2021, which implements these changes, were laid on 9th March 2021 and came into force on 31 March 2021. On 3rd June 2021 we issued a national letter to Chief Financial Officers and Audit Committee Chairs setting out the principles we will adopt for scheduling high-quality 2020-21 audits. We will use these principles to confirm the proposed timetable and scheduling of both Council's external audit of 2020-21 financial statements by the end of June 2021.

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Our individual audit plans for each Council will include further details on the planned fees and factors affecting the scale fee set by Public Sector Audit Appointments Limited for 2020-21.

Overview of our 2020/21 audit strategy (cont.)

Audit scope

Our audit strategy covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Daventry District Council and Group; and separately South Northamptonshire Council, give a true and fair view of the financial position as at 31st March 2021 and of the income and expenditure for the year then ended; and
- Our conclusion on each of the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we must perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment: and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to each Council.

Taking the above into account, and as set out in this audit plan, our professional responsibilities require us to assess independently the risks associated with providing an audit opinion, and to undertake appropriate procedures in response. Our Terms of Appointment with PSAA allow them to vary the fee depending on "the auditors' assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, valuations of land and buildings, auditing of groups, valuation of pension obligations, and the introduction of new accounting standards in recent years, as well as the expansion of factors affecting the value for money requirements. Therefore to the extent any of these or any other risks are relevant in the context of the Councils' audit, we will discuss the impact on the scale fee set by Public Sector Audit Appointments Limited with management.

Overview of our 2020/21 audit strategy (cont.)

Value for money conclusion

One of the main changes in the NAO's 2020 Code is on the value for money conclusion, replaced by a value for money narrative commentary. In summary:

- We are still required to consider whether each Council has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on VFM and the associated risk assessment is now focused on gathering enough evidence for us to document our evaluation of the Councils' arrangements and to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
 - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - Governance - How the Council ensures that it makes informed decisions and manages its risks properly; and
 - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which we must issue within three months of issuing the audit opinion on the financial statements.

We will report the results of our planning procedures in each audit plan, and include how we propose to respond to any identified risks of significant weaknesses in arrangements for the financial year ended 31st March 2021.

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27 January 2021

Dear Audit Committee Chairs and CFOs,

Given the increase in restrictions that are in place in response to the ongoing Covid-19 pandemic, many people involved in preparing and auditing financial statements have been considering the impact this will have on reporting timetables for upcoming Annual Report and Accounts starting with those for the year ended 31 December 2020.

Today the FRC and the FCA published a joint statement for companies, auditors and users of financial statements [LINK](#). In this they encourage all stakeholders, particularly those boards of listed companies, to re-familiarise themselves with the measures that have been put in place to provide flexibility during this time including allowing listed companies an additional two months to publish their audited annual financial statements and to use them in light of any resourcing constraints in finance and/or audit teams to ensure the quality of reporting is not compromised during this period.

Given these circumstances, and in my role as EY's UK Head of Audit, I am writing to the companies we audit as I am keen we all consider the additional challenges that have arisen since year end timetables were determined, the risks these bring to the year end reporting and auditing cycle and consider whether timetables should now be revised.

On 12 November the FRC published its annual end of year letter to CEOs, CFOs and Audit Committee Chairs setting out its reporting expectations for preparers of reports and accounts for the year ahead [LINK](#). In this letter, issued before the current restrictions were increased, the FRC encouraged boards to carefully consider whether they should lengthen their reporting timetables for 2021, making use of the extensions to reporting deadlines that remain in place. The increased restrictions bring more relevance to this request.

Preparing and auditing financial statements during the last nine months has been particularly challenging for the following reasons:

- ▶ There are difficult judgements to make due to the uncertainties in forecasting the future. Allied to this, auditors have consultation obligations for significant judgements which must be factored into the year-end timetable.
- ▶ A broad range of stakeholders are relying on preparers and auditors of financial statements to be more transparent about the key judgements made given the uncertainty which exists.
- ▶ Remote working has added to the time taken to both prepare and audit financial statements. It has also increased the risk of error and fraud if processes and controls fail to operate as they would normally.
- ▶ Providing the required oversight from both management and auditors of component operations is challenging when travel is prohibited.

The availability of finance staff and auditors has been impacted over this time both by illness and the closure of schools. With the increasing prevalence of the virus and schools being closed again the staffing impact is now more significant. It also coincides with peak demand for audit resources across all the firms given the volume of December 2020 year ends.

We know from our experience of auditing financial statements for years ending from March 2020 onwards that many companies needed to lengthen their reporting timetables for us all to deal with the challenges presented. Our experience was this was better if an early decision was made and plans revised accordingly.

The FRC has made it clear that a high-quality audit is even more important in these challenging times and there is no reduction in their expectation of the audit firms to perform audits of the highest quality in full compliance with all auditing standards.

The combination of these factors means that the challenges for both finance teams and auditors are very real. However, we cannot allow the standard of corporate reporting or auditing to be adversely impacted by this situation as we will be collectively judged by the quality of our response in the months to come. Accordingly, I ask that you carefully consider your reporting timetable in light of these circumstances and be certain you are satisfied that it remains appropriate otherwise revise it accordingly.

We may have to make the difficult decision to delay the signing of audit opinions where we consider all reasonable steps have been taken to meet the deadlines but despite this effort the audit work is not complete at the deadline date. Your engagement team will let you know immediately if anything happens which could threaten our ability to complete your audit on time.

I thought it would be helpful to be clear about the need to perform a high-quality audit in challenging circumstances and to take this opportunity to ask that you consider your current plans. I believe that with the combined focus we will all bring we can successfully navigate the challenging months ahead.

Your sincerely



Andrew Walton
UK Head of Audit

Addressed to Chief Financial Officers and Audit Committee Chairs for
PSAA audited bodies (Local Government, Police and Crime
Commissioners, Chief Constables, Fire and Rescue Authorities)

1 June 2021

Ref: JD/NH

Direct line:

Sent by email

Email: jdawson1@uk.ey.com

Dear Chief Financial Officer and Audit Committee Chair

Scheduling high-quality 2020/2021 local public audits

In February 2020, I wrote to you to address the concerns we all share regarding the sustainability of financial reporting and auditing in England. Since then, we have collectively had to respond to all the unprecedented challenges that have arisen following the coronavirus pandemic (Covid-19). Thank you for the way you and your officers have responded to these difficult circumstances in the public interest and supported my teams with our audits.

Over the past six months, the Sir Tony Redmond review, Ministry of Housing, Communities and Local Government (MHCLG) response and recent consultations on 2020/2021 reporting timetables have sought to put in place measures to address the much needed stability of the local public audit market.

The National Audit Office's (NAO) recent report on the timeliness of local auditor reporting in England explored the factors that have led to the increasing delays to the delivery of audited financial statements. We contributed to this review and recognise most of the NAO's findings. In particular we agree with the NAO's comments that the Covid-19 pandemic has had a significant impact on the delivery of the 2019-2020 audits, the financial position of audited bodies and exacerbated problems which already existed within the local audit landscape.

I want to set out the principles which will guide the scheduling of our 2020/2021 external audits and how we will work with you as and when Covid-19 restrictions are eased. This will support conversations your Audit Partner will be having with you as we plan and deliver your 2020/21 external audit.

Context guiding our scheduling of 2020/21 external audits

On the 31st March 2021, MHCLG's amendments to the 2021 Accounts and Audit Regulations came into force. This sets an expectation that you have up to the 1st August 2021 to publish draft financial statements, and the target date for the publication of audited accounts is 30 September 2021.

We have said in response to MHCLG's consultation on the reporting timetable that we do not believe this is realistic or sustainable for the following reasons:

- The continuing impact of Covid-19 restrictions on the financial reporting and audit cycle across the corporate and public sectors. Our UK Head of Audit wrote to your peers for our corporate audits on 27th January 2021 setting out the impact on reporting timetables, reinforcing guidance issued from the Financial Conduct Authority and the Financial Reporting Council (FRC). This letter is appended for your information.
- Impact of later completion for remaining 2018/2019 and 2019/2020 local public audits, and the delay that has resulted in starting 2020/2021 audits. Practically, this means significantly more audit work will be required in the final stage of our audits in August and September 2021 than is usual, especially as little interim procedures have been performed by 31st March.
- We expect and do understand why some of you will take the opportunity of getting ready to produce draft accounts by the 1st August. However, doing so leaves auditors only two months to complete the audit, including the month of August when we anticipate with the lifting of Covid-19 restrictions, your officers and our staff may plan to take annual leave.
- One of the many issues recognised by the Redmond review is that there are insufficient numbers of skilled and specialist local auditors to deliver local audit within such a shortened timeframe. The implication of the reporting timetable is to require auditors to move at an even faster pace to catch up, which does not safeguard audit quality and our professional standards. We are also concerned that this timetable could do irreparable damage to the attractiveness of the local audit profession.
- Additional work required by finance teams and auditors to respond to the increasing complexity of decision making, including commercialisation and group accounting. Covid-19 has exacerbated this and led to greater levels of estimation, uncertainty and risk in financial reporting and financial sustainability. This will continue to require additional procedures for your teams and ours, including the use of specialists and navigating professional practice consultations.
- Other jurisdictions such as Audit Scotland are proposing to revise the 2020/2021 local authority reporting timetable to the 30th November 2021 in recognition of these circumstances.

Delivering our 2020/2021 external audits

We have said to MHCLG, NAO and Public Sector Audit Appointments Limited (PSAA) that our approach will continue to be to plan and perform our audits to safeguard our highest standards of quality. The FRC are currently inspecting a sample of our 2019/2020 audits but have recognised the good quality of our local public audits last year.

We believe a high-quality audit is even more important in these challenging and unprecedented times and will not compromise or reduce our expectations. We will provide our audit opinion when we are satisfied that we have performed sufficient quality work to support our judgements, rather than by a certain and potentially unrealistic date. This means we will be scheduling a number of 2020/2021 external audits for completion after the 30th September 2021.

I am aware some but not all of you will have already had discussions with your Audit Partner on provisional timetables. I do encourage you and the Audit Partner to collectively consider all the challenges that have arisen since Covid-19 restrictions and make an informed joint assessment on a realistic and achievable timetable that ensures the quality of financial reporting and audit is not compromised. This assessment should consider the finance and audit team constraints and the complexity of the financial reporting and audit process.

Each of our regional office leads is finalising their delivery plan for the 2020/21 external audits. The proposed timing of your external audit is being determined using a consistent set of principles to ensure we have a fair and equitable basis for scheduling audits before the 30th September 2021 and those afterwards. These principles include the plans to conclude overdue 2018/19 and 2019/20 external audits, our assessment of your preparedness for audit, expectation on level of audit errors and findings, the degree of risk and complexity including any significant changes since the prior year and maximising our availability of qualified and experienced audit staff and specialists.

Ways of working

I am aware that you will be having ongoing dialogue with MHCLG on how the easing of Covid-19 restrictions will impact on your operations and ways of working, now and in the future.

Generally, we have found that our technology (EY Canvas, EY Canvas portal and Microsoft Teams) has been successful and resilient, supporting high-quality audits. This has led to more flexibility and agility on the way in which remote audits are conducted. We intend to follow these working practices again with you and your teams for the 2020/2021 audits, and therefore I am not expecting full-time on-site audit presence. These principles will also support how we work with you on our move to an increasingly digital and data-driven audit in the future.

In addition, your Audit Partner and Engagement Manager have been more productive and flexible by their ability to attend more meetings virtually, eliminating significant travel time and contributing to our net carbon targets. I am not expecting our more senior staff to be attending meetings with management and Audit Committees in person in every case when restrictions are eased.

I do recognise though that there may be circumstances which mean we do need to be flexible and proportionate. I have asked your Audit Partner and Engagement Manager to discuss with you and your finance team and arrive at a shared understanding on the planned working arrangements and approach this year. This is particularly important to support discussions with new members of Audit Committees post the May 2021 local elections.

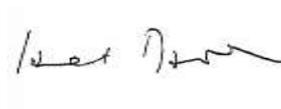
Next steps

I am keen that we have a collective and combined focus to work together and navigate the challenging months ahead and, importantly, to agree the proposed timing of your 2020/21 external audit and how we work with you this year.

We are continuing to work with MHCLG, CIPFA/LASAAC, ICAEW, NAO and PSAA to share our point-of-view on those areas that are critical to stabilise the local public audit system and improve the sustainability of financial reporting and audit in England, and I provided evidence to the Public Accounts Committee last month on those issues. We will be responding to further consultations from MHCLG and others on the implementation of the Redmond recommendations. We will also be considering the implications for financial reporting and local public audit following the recent Department for Business, Energy & Industrial Strategy consultation on reforms to corporate governance and the audit profession. Your Audit Partner will be able to discuss our point of view with you and at your future Audit Committee meetings.

In the meantime, if you have any questions on this letter, please do not hesitate to contact me using the details provided.

Yours faithfully,



Janet Dawson
UK Government and Public-Sector Assurance Leader
Ernst & Young LLP



WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

16 JUNE 2021

Report Title	Predecessor Councils' Statement of Accounts
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1. Purpose

- 1.1. The purpose of this report is to provide an update to the Committee on the status of the accounts closure process from the four predecessor authorities.

2. Recommendations

- 2.1. It is recommended that the Committee notes the content of this report

3. Issues and Choices

Information

- 3.1 West Northamptonshire Council has the responsibility of closing all of the predecessor accounts down in the area for which it now has responsibility.
- 3.2 It has also been determined that West Northamptonshire will be responsible for closing down the outstanding accounts for Northamptonshire County Council.
- 3.3 Therefore, in addition to preparing the accounts for West Northamptonshire for the financial year 2021-22 onwards it also has responsibility for closing the outstanding prior year accounts down for:
- Northamptonshire County Council
 - Northampton Borough Council
 - Daventry District Council
 - South Northamptonshire Council

This report sets out the status of the closure of the accounts for each of the predecessor areas.



3.4 The predecessor accounts are at various stages of completion as summarised in the table below:

	2018-19	2019-20	2020-21
Northamptonshire County Council	Approved	Subject to audit	Being prepared
Northampton Borough Council	Approved	Subject to audit	Being prepared
Daventry District Council	Approved	Approved	Being prepared
South Northamptonshire Council	Approved	Approved	Being prepared

3.5 The table shows that there are six sets of legacy accounts outstanding. Given the 2020-21 financial year has just recently closed it is to be expected that all accounts for that year are currently in the process of being prepared.

3.6 It should also be noted that a great deal of work took place in the predecessor councils in the run up to vesting day (1 April 2021) to seek approval for outstanding accounts and in the final week before vesting day four sets of accounts were approved. The 2018-19 accounts for the County Council and Northampton Borough Council and the 2019-20 accounts for Daventry District Council and South Northants Council.

3.7 Without this final push and effort that took place in the previous councils there would have been 10 sets of accounts to close for West Northamptonshire.

3.8 The position on each set of the predecessor accounts is included below

3.9 Northamptonshire County Council

2018-19 – The accounts were approved on 31 March 2021 and signed off by Ernst and Young on 31 March 2021.

2019-20 – The draft accounts have been prepared and are being audited by Ernst and Young.

2020-21 – The accounts are in the process of being prepared.

3.10 Currently it is anticipated that all outstanding accounts for the County Council will be approved and signed off by the auditors by the end of this financial year.

3.11 Northampton Borough Council

2018-19 – The accounts were approved on 31 March 2021 and signed off by Ernst and Young on 8 April 2021.

2019-20 – The draft accounts have been prepared and are being audited by Ernst and Young.

2020-21 – The accounts are in the process of being prepared.

3.12 Currently it is anticipated that all outstanding accounts for Northampton Borough Council will be approved and signed off by the auditors by the end of this financial year.

3.13 Daventry District Council

2018-19 – The accounts had previously been approved and signed off by the auditors.

2019-20 – The accounts were approved and signed off by the auditors on 29 March 2021

2020-21 – The draft accounts are almost complete for 2020-21 and we await a start date for Ernst and Young to begin their external audit.

3.14 Currently is anticipated that the 2020-21 accounts will be approved and signed off by the end of this financial year.

3.15 South Northants Council

2018-19 – The accounts had previously been approved and signed off by the auditors.

2019-20 – The accounts were approved on 30 March 2021 and signed off by the auditors on 31 March 2021.

2020-21 – The draft accounts are being finalised and we await a start date for Ernst and Young to begin their external audit.

3.16 Currently it is anticipated that the 2020-21 accounts will be approved and signed off by then end of this financial year.

Conclusion

3.17 This report seeks to set out the status of each predecessor council's statement of accounts and comes to the Audit and Governance Committee for information.

4. Implications (including financial implications)

4.1. Policy

4.1.1. None

4.2. Resources and Risk

4.2.1. There is a risk that competing priorities will impact on the resources available to close the outstanding accounts.

4.3. Legal



**West
Northamptonshire
Council**

4.3.1. There are statutory deadlines and requirements associated with the closure of accounts. Officers will continue to work to meet these wherever possible.

4.4. Equality and Health

4.4.1. None

**Report Author: Martin Henry
Executive Director – Finance
S151 Officer**



WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

16 JUNE 2021

Report Title	Work Programme
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1. Purpose

- 1.1. The purpose of this report is to provide a draft work programme for consideration by the Committee

2. Recommendations

- 2.1. It is recommended that the Committee considers the work programme and determines which other areas should also be considered by the Committee

3. Issues and Choices

Information

- 3.1 Attached at Appendix A is a draft work programme for the Committee focussing primarily on the first two meetings.
- 3.2 The work programme will evolve over time and the Committee is requested to consider the attached programme and highlight any other areas where they may wish to receive further reports.
- 3.3 More detail will be added to the programme when it is clearer when certain internal audit and external audit reports are likely to be available for discussion.

4. Implications (including financial implications)

4.1. Policy

- 4.1.1. None

4.2. Resources and Risk



**West
Northamptonshire
Council**

4.2.1. None

4.3. Legal

4.3.1. None

4.4. Equality and Health

4.4.1. None

**Report Author: Martin Henry
Executive Director – Finance
S151 Officer**

Work Programme

	16-Jun-21	29-Jul-21	30-Sep-21	25-Nov-21	27-Jan-21	31-Mar-21
Minutes from the previous meeting	x	x	x	x	x	x
Internal Audit Plan 2021-22	x					
Internal audit Plan 2022-23						x
Internal Audit Progress report	x	x	x	x	x	x
External Audit Progress report	x	x	x	x	x	x
Closure of accounts progress	x					
Risk management policy		x				
Corporate Risk Register		x	x	x	x	x
Predecessor authority recommendations		x				
Predecessor statement of accounts approval	To be confirmed					
Various external audit statutory reports	To be confirmed					
Work programme	x	x	x	x	x	x

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