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West Northamptonshire Council

Audit and Governance Committee

A meeting of the Audit and Governance Committee will be held at the on Wednesday 28 July 2021 at 6.00 pm in the Jeffery Room, The Guildhall, Northampton, NN1 1DE

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.	**Minutes** (Pages 5 - 10) To confirm the Minutes of the meeting of the Committee held on 16th June 2021.
5.	**Internal Audit 2021-2022 Update Report** (Pages 11 - 22)
6.	**External Audit Progress Report from Ernst & Young - Verbal Update**
7.	**External Audit Progress Report from Grant Thornton - Verbal Update**
8.	**Internal Audit Annual Reports for Predecessor Authorities** (Pages 23 - 86)
9.	**Annual Audit Letter 2019-2020 (South Northants Council)** (Pages 87 - 114)

10.	**Annual Audit Letter 2019-2020 (Daventry District Council)** (Pages 115 - 138)
11.	**Annual Audit Letter 2018-2019 (Northampton Borough Council)** (Pages 139 - 168)
12.	**Northamptonshire County Council and Pension Fund - External Audit Annual Audit Letter** (Pages 169 - 218)
13.	**Northamptonshire County Council - External Audit Planning Report Year Ending 2019/20** (Pages 219 - 270)
14.	**Northampton Borough Council- External Audit Planning Report Year Ending 2019/20** (Pages 271 - 312)
15.	**South Northamptonshire Council - External Audit Planning Report Year Ending 2020/21** (Pages 313 - 358)
16.	**Daventry District Council - External Audit Planning Report Year Ending 2020/21** (Pages 359 - 360)
17.	**Northamptonshire Pension Fund Audit Plan 2020-21** (Pages 361 - 402)
18.	**Risk Management Strategy** (Pages 403 - 426)
19.	**Strategic Risk Register** (Pages 427 - 432)
20.	**Work Programme** (Pages 433 - 436)
21.	**Closure of Accounts Progress (Verbal Update)**
22.	**Committee Timings (Verbal only)**
23.	**Exclusion of the Press and Public** Should Members decide not to make a decision in public, they are recommended to resolve as follows:

	"That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following item(s) of business on the grounds that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part I, Paragraph(s) XXXXX would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

Catherine Whitehead
Proper Officer
20 July 2021

Audit and Governance Committee Members:

Councillor Cecile Irving-Swift (Chair)

Councillor John Shephard (Vice-Chair)

Councillor Jamal Alwahabi

Councillor Pinder Chauhan

Councillor Jake Roberts

Councillor Rosie Humphreys

Councillor Michael Brown

Councillor Stephen Clarke

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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Email: democraticservices@westnorthants.gov.uk

Or by writing to:

West Northamptonshire Council
One Angel Square
Angel Street
Northampton
NN1 1ED

WEST NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE MINUTES

16 JUNE 2021

Cabinet Members Present:

Cecile Irving – Swift (Chair)	John Shephard (Vice-Chair)
Jamal Alwahabi	Michael Brown
Stephen Clarke	Rosie Humphreys
Jake Roberts	Danielle Stone

Other West Northamptonshire Council Members Present:

Julie Davenport	

West Northamptonshire Council Officers Present:

Janet Dawson	Partner, Ernst & Young
Jacinta Fru	Head of Internal Audit (West)
Paul Hanson	Democratic Services Manager
Neil Harris	Associate Partner, Ernst & Young
Sofia Neal-Gonzalez	Democracy Officer (minutes)
Audra Statham	Assistant Director of Finance – Accountancy
Duncan Wilkinson	Chief Internal Auditor

1. APOLOGIES FOR NON-ATTENDANCE:

Councillor Pinder Chauhan sent apologies.

2. DECLARATIONS OF INTEREST

There were none

3. ANNOUNCEMENTS

Audra Statham attended the meeting in place of Martin Henry. Ernst & Young would present their item first.

4. EXTERNAL AUDIT PROGRESS UPDATE

At the Chairman's invitation Neil Harris presented the first part of the report, copies of which had been circulated previously. E&Y were currently auditing legacy balances and were preparing a detailed report for Martin Henry, which would include value for money and areas of risk. There had been a focus on valuation of assets, fraud, pension assessment and key revenue streams. A new area that had been investigated was that of the acquiring of grants and how they are received. Work

done in the value for money sector had not been included in the plan as it was yet to be completed.
There had been a change in auditing standards which had led to extra considerations having to take place, any high risk estimation made would need further investigation.

Councillors made the following comments.

- The report advised of a revenue rental risk in Daventry, could there be some confirmation on what this relates to?
- Covid had been listed as a risk, it was asked why Brexit had not also been listed as a risk.
- It was noted that the closing down of the accounts was very important, could an estimate be given with regards to when this would be completed and whether the information E&Y were given was good enough.
- Has the change in staff had any adverse effects on the ability to conduct the work and gain the required information.
- It was noted that risks would increase when change occurred, had any provision been put into place or this.

Neil Harris made the following comments.

- Guidance was given and it was determined that Brexit had not had a significant effect with regards to value for money.
- It was noted that materiality had been placed at 2%
- There had been an awareness of the changes in the setup of Northampton's council.
- The impact of Covid-19 would be considered with regards to 19/20 Audit. It had impaired some key issues; the draft financial statements would show any problems caused by Covid-19.

Janet Dawson presented the next part of the report, and advised that NBC (Northampton Borough Council) and NCC (Northamptonshire County Council) were running audits at different times, with one late than the other.

Work on NBC was well underway, sampling was now being completed and E&Y hoped to bring 'plan' to the next meeting. Materiality had been placed at 1%, this had been a reaction to the heightened interest from stakeholders.
Risks with regards to value for money arrangements had been identified and there had been a significant amount of change in governance.
Janet confirmed that the continuity of the resourcing team was important and a good delivery plan was in place.

Work on NCC had noted risks with regards to fraud, management override, and valuation of land and building, (specialists were being used for the valuation). The valuation of pension liability and other schemes had placed materiality at 1% due to public interest. It was noted that the 19/20 financial position had been overseen by the commissioners of NCC. Value for money had been a key area of focus especially with regards to Children's Services and how any improvements had been taken forward. The team that had been working on the 18/19 accounts would be kept the same and would also take on the 19/20 Audit. The completion of field work is

estimated to be completed by mid-august with the report being presented to the committee by the September meeting.

Councillors made the following comments.

- It was asked whether there would be any financial legacy within the new council with regards to Sixfields.
- Clarification on what was meant by associated accounts was requested, and whether there were any legacy risks.
- It was noted that a deeper understanding of the new council's budgets would be helpful.

Janet Dawson made the following comments.

- With regards to any implications from sixfields, it is understood that the only legacy issue would be elements of any further debts that can be recouped and any further recompense.
- In some cases, value for money would not get looked at but whether the arrangements that were in place were done correctly.

Audra Statham advised that with regards the sixfields football loan, the legacy situation had been accounted for and provisions put in place. It was noted that there was still a criminal investigation which was ongoing.

RESOLVED: That the Committee noted the content of this report.

5 INTERNAL AUDIT PLAN

At the Chairman's invitation Duncan Wilkinson, Chief Internal Auditor presented the report, copies of which had been previously circulated. Duncan advised that the report was late coming to the committee due to the disaggregation of NCC, it would usually arrive in February. It was advised that Section 1 of the report set out the key professional requirements. The key objective would be to set out a schedule of Audit work with significant coverage of activities. If a significant amount of the plan is not completed, then a limited audit report to the audited areas would be provided. The objective had already been recognised as being a challenging one, with the report designed to give assurance that work is being done.
Process and structure will continue to be measured with any changes noted and reflected in the Audit plan. The committee was advised that the plan would change throughout the year.
There would be continued liaising with staff who had moved from the other councils, it was felt that there had been a good continuity of staff, meaning that the audit plan would be delivered from an informed basis.
Work that had been completed for Q1 had been set out on page 18 of the report, timings would be flexible as many of the officers were under pressure.
It was advised that Internal Audit were happy to engage with individual audit queries.

Councillors made the following comments;

- Is specific staff allocated for different councils within LGSS

- It is the role of the Audit committee to also self-analyse, had this been conducted at NCC.
- It was asked whose role it was to run the risk register
- Would the overspend of the relief road be discussed.

The Chair asked if the committee could be provided with a glossary of the abbreviations that would be used in any future reports.

Duncan Wilkinson made the following comments.

- It was noted that abbreviations would normally be fully written within the report down but had been missed this time.
- With regards to resources it was important to be as flexible as possible.
- Belonging to a shared service allowed for a wide pool of people with varying degrees of experience.
- Staff would not be approach to audit within the first 6 months in order to allow for as much operational delivery as possible.
- With regards to the Relief Road overspend - this would probably sit better within the scope of the scrutiny committee.

Audra Statham made the following comments.

- It was recognised that a strong relationship with Northampton North was required in order to complete some legacy work.
- Interim staff had been put in place in order to keep departments running properly. This had been on top of having a strong core team from the start.
- Internal Audit had a specific role as well as the section 151 officer.
- A plan had been in place in order to mitigate for any potential changes.
- All services would be looked at, it had not been possible at the beginning as ensuring safe and legal from day one had been the focus.

The Chair advised that the section 151 officer would ensure that Internal Audit have all of the resources in order to conduct an audit.

RESOLVED: That;

1. **The Committee provided any comment on the plan at Annex A and endorsed it subject to those comments.**
2. **The Committee highlighted any areas of focus they wished the service to prioritise within the first six months of the new Council's operations report**

6. INTERNAL AUDIT UPDATE

At the Chairman's invitation Duncan Wilkinson presented the report, copies of which had been previously circulated. The report was a brief one and not much could be reported as it was still early - Internal Audit would normally wait until after Q1.
The report had been brought to the meeting in order for the committee to see the structure and how the information would be presented. The report had set out the current progress of the audits, 7 were at planning stage with 1 yet to be completed.

The action tracker would be presented at the July meeting and would be a more granular report. ERP processes had been in place and all payroll changes had been accomplished – any changes to bank details were now on a self-service basis by the member of staff.

The Chair asked that a copy of a full assurance audit be provided to the committee in order for them to see the difference.

RESOLVED: That the Committee noted the report

7. CLOSURE OF ACCOUNTS - PREDECESSOR COUNCILS' STATEMENT OF ACCOUNTS

At the Chairman's invitation Audra Statham presented the report, copies of which had been previously circulated. The interim team that had been put in place had been retained, there had also been a handover to permanent members of staff. Any estimates noted in the report had been based on professional judgements.
There had been a good response to vacancies, and a change in personnel between North Northants and West Northants was to be expected for some time. The committee was advised that there had been help with the close down of accounts from staff in the North.

A Councillor requested at an item be added to agenda for the next meeting in order to discuss the timings of the meeting.

RESOLVED: That the Committee noted the content of this report

8. WORK PROGRAMME

At the Chairman's invitation Duncan Wilkinson presented the report copies of which had been previously circulated. There would be regular recurring items in the work programme which would include internal audit progress updates.
The committee was also advised the risk register would also be presented at every meeting.

RESOLVED: That the Committee considered the work programme and determined which other areas should also be considered by the Committee.

9. URGENT BUSINESS

None

There being no further business the meeting ended at 7:50pm.

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	Internal Audit 2021-22 Update Report

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 30th June 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. 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 1. 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.

West Northamptonshire Council

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

West Northamptonshire Council

APPENDIX 1

Internal Audit and Anti -Fraud Progress Update – July 2021

DUNCAN WILKINSON, CHIEF INTERNAL AUDITOR

28 July 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 June 2021 to 5 July 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. 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. The final schedule of work was agreed in early May 2021 and so it is recognised that as at start of July, the majority of audits are unlikely to be at draft/final report stage of progress.

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 the progress on work 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 (e.g. Annual Audit Opinions etc).

2 Progress summary

2.1 **Plan Progress – Section 3 below**

As at 5 July 2021 of the 15 Q1audits started during Q1:

- 1 - draft report stage
- 4 - field work complete (findings being discussed with management)
- 9 - various stages fieldwork
- 1 - planning stage, with terms of reference agreed

Additionally 3 Audits within Q2 have been allocated to auditors

2.2 **Changes to the Plan – Section 4 below**

Details of two changes to the plan agreed with management

2.3 **Counter Fraud - Section 5 below**

Details of the cases and outcomes are given at section 5.

2.4 **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 the outcome from the required formal consultation etc.

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. In light of the final schedule of work being agreed in May 2021, it is recognised that this target has had to be extended, to reflect the reality on the ground. It is now anticipated that all Q1 work will be completed by end of August 2021. Quarter 2 work (as set out within the plan submitted to AGC on 16th June) is being allocated to resources where possible.

3.2 The Chief Internal Auditor and the s151 recognise that the delivery of the first year's 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 Council's Cabinet (on 13th July) delegated authority to the 151 officer to bring the internal audit service back in house as soon as is practicably possible. The consideration of options and their implementation will have an impact of delivery of the plan.

3.4 The table below details all of the Quarter 1 schedule of work and their status as at beginning of July 2021, with an approximation of % completion as requested by the Committee.

Q1	Assignment	Audit Status	Completion %
1	Consolidation of key records	Fieldwork complete, exit meetings being held	80%
2	Legacy Bank Accounts	Fieldwork in progress -testing is ongoing	70%
3	Key Policies and Procedures	Fieldwork complete – findings to being agreed	75%
4	ERP IT users	Terms of Reference Agreed	25%
5	Government Procurement Card	Fieldwork complete- Draft Report to be issued	85%
6	Bank Reconciliation	Fieldwork complete – findings to be agreed	75%
7	Business Grants	Fieldwork in Progress- testing on going	30%

Q1	Assignment	Audit Status	Completion %
8	Accounts Receivable – Debt management	Progress paused to enable Income review to be completed	25%
9	General Ledger	Fieldwork complete – findings to be agreed	75%
10	Accounts Payable	Fieldwork in Progress – testing is ongoing	50%
11	Treasury Management	Fieldwork in Progress -testing is ongoing	60%
12	Payroll	Fieldwork in progress- testing is ongoing	50%
13	Accruals	Planning – Initial discussions held with client management,	20%
14	Income	Fieldwork in Progress – Testing is on going	40%
15	Establishment checks	Fieldwork in Progress – Testing is ongoing	35%
Q2	**Assignment**	**Audit Status**	**Completion %**
16	Safeguarding vulnerable Adults	Allocated	5%
17	Planning Applications Process	Allocated	5%
18	Financial Decisions (scheme of delegations)	Allocated	5%

4 Changes to Audit Plan

4.1 Since the last Committee, the following changes have been made to the Plan.

- A review of the hierarchy of authorisation for financial decisions has been introduced as a standalone audit, as opposed to being reviewed within the Accounts Payable review.
- An audit has been proposed to review controls over banking of income received from residents across the Sovereign Council areas, following management concerns of current income being posted to the legacy bank accounts or to wrong bank accounts.

4.2 A review is being undertaken of work to be completed for Q2, and to ensure audits are aligned with the risk register, when that information can be provided to IA.

5 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 month of period 1 April 2021 – 30 June 2021 and the outcomes achieved are detailed.

Fraud Type	No of Referrals	Status	Outcomes (1/4/21 -30/6/21)
Blue Badge misuse	6	Closed	Risk assessed and referred on to Parking Services
Housing & Ctax Benefits	15	Closed	Referred on to Department for Works and Pensions via SPOC
Council Tax – single Persons discount	1	Closed	Risk assessed and referred on to Revenues and Benefits Team
C19 Grant	1	Closed	No fraud established
Bank Mandate	3	Report issued	1 case succeeded, was investigated and report issued to Head of Payroll. 2 other matters were prevented and no loss.
Homelessness	3	Closed	Two cases were cancelled and one priority reduced

6 Service Performance

6.1 **Plan completion and productivity:**

An internal Audit Plan for the full 2021/22 year was 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 auditing of client work as opposed to administrative tasks). The measurement of this performance is difficult for Q1 given the unique nature of the 21-22 plan.

It is highlighted that the Audit Plan for WNC is expected to change at various times during the year, and the quarter 1 work is illustrative of a need to concentrate on providing focussed assurance on specific areas of control.

6.2 **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.

Annex A

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 is used as a key source of information, as is the Internal Audit risk assessment of the organisation, and these are used to form the basis of the Internal Audit plan.

In developing the plan, Internal Audit (IA), consults services, Senior Managers, Management Team and the Audit Committee. The Audit Committee then approves the plan and 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.

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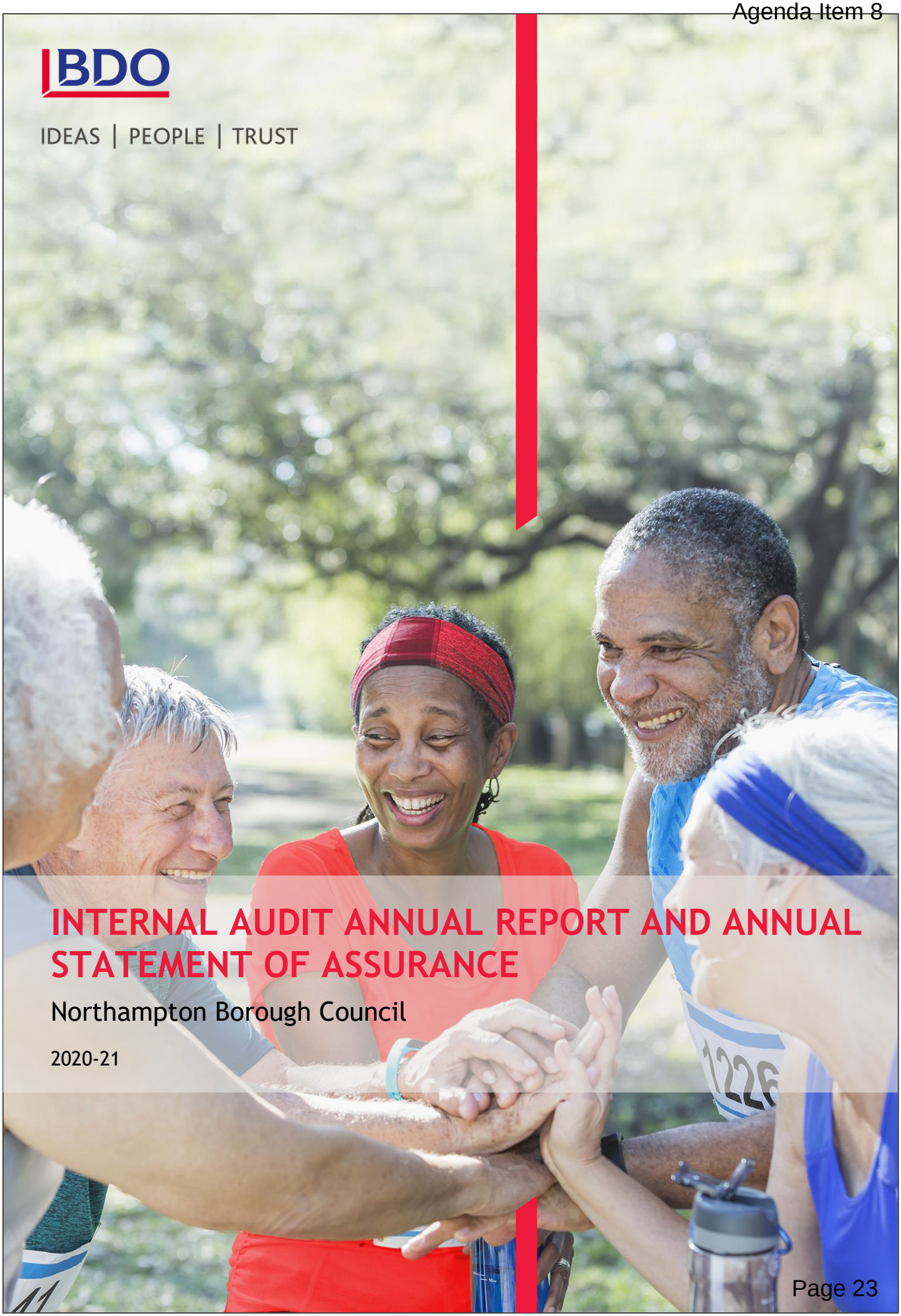

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INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Northampton Borough Council

2020-21

CONTENTS

SUMMARY OF 2020-21 WORK

Internal Audit 2020-21

This report details the work undertaken by internal audit for Northampton Borough Council and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been issued for this financial year:

- Licensing
- Climate Emergency (Environment)
- Northampton Partnership Homes (NPH) Service Level Agreement
- Capital Projects
- Social Lettings Agency
- Self-isolation Grant
- Health and Safety NPH
- Safeguarding (carried over from 2019-20).

We have detailed the opinions of each report and key findings on pages four to eight. Our internal audit work for the 12 month period from 1 April 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by management and the Audit Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the Board, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period. The basis for forming my opinion is as follows:

- We conclude a **Limited Opinion** on the overall arrangements for governance, risk and control (2018-19 – Limited and 2019-20 – Moderate)

- We have seen an increase in the number of high findings issued in 2020-21 and also in the number of Limited Opinions in both the Design of Controls and the Effectiveness of Controls despite conducting fewer reviews this year. Of the 9 reports, 4 gave limited assurance on design of controls and 5 gave limited assurance on the effectiveness of controls. We do recognise that in working with the Council we agree to focus on areas of known concern. However, taking this into account there are key themes from our work which raise concern about the effectiveness of governance and oversight, particularly in relation to contract and project management.

- Whilst there has been good engagement in some reports during the year and taking into account the impact of the Covid-19 pandemic, there have been instances of long delays in management responding to reports and some management responses that have not provided confidence that the issue would be addressed. This is at least partly due to the move towards unitary status and some issues have been carried forward for the new authority to action.

Please note that this Opinion is being issued on 25 March 2021 to the Council's Audit Committee. An Opinion would ordinarily be issued after 1 April in any given year however due to the Council moving to Unitary status we are issuing this earlier. Therefore whilst our Opinion is for 2020-21 period it is only correct as of the date 25 March 2021 and does not take into account any subsequent events between this date and 1 April 2021 which could otherwise impact our Opinion.

REVIEW OF 2020-21 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Licensing	-	2	3	Substantial	Moderate	• The Licensing Team maintain detailed policies, procedures and guidelines for applicants for the licensing application process. Their communication with the applicants, based on a sample reviewed, assists the process for the applicant. Issues noted included: • Some application types fees are not applied automatically in the system which leads to manual payments. Three of our sample of 25 applications were processed with a potentially incorrect fee category (although the difference was small) and some payments have missing supporting justifications for a manual or payment waiver • Our sample test of 25 license applications found that some licenses were approved despite inadequate information being provided to support the application. For example, on taxi license was approved when the DBS certificate on the applicant was out of date. In one further case the private vehicle hire application was approved even though the vehicle inspection report was outdated • The Council do not currently have an effective process to measure the application processing timeline and performance of the team
Northampton Partnership Homes (NPH) Service Level Agreement	2	2	1	Moderate	Limited	Overall the Council has a Moderate control design for the management of the NPH Management Agreement. There were no nominated officers assigned to responsibilities in the Management Agreement, however, in practice, there appears to be clear distinction between the operational management and strategic management of NPH's performance. However, there were apparent weaknesses in communication

						arrangements between Council officers and the Council nominees on the NPH board. The Management Agreement includes clear requirements from NPH in terms of transparency of board meetings and annual preparations of the Delivery Plan. However, there is currently no mutual understanding between the Council and NPH as to whether these apply and as a result these have not been met. This leads us to conclude that the control effectiveness is Limited.
Climate Emergency (Environment)	1	3	1	Limited	Moderate	The Council is in the early stages of establishing a process designed to ensure it achieves its target of becoming carbon neutral by 2030. The Council, through work completed by the Director of Planning, has developed a draft strategy and has identified a number of key actions needed to ensure their target date is achieved. However, whilst these actions have been recorded in the strategy, the strategy itself provides little detail and information in terms of current work, the specifics of the Council and their objectives when compared to other strategies viewed. Similarly, the process for monitoring and reporting as well as the actions themselves require further work. • Based on the above we can provide Limited assurance over both the design of controls. We have issued a Moderate Opinion over operational effectiveness of the controls currently in place as the Council have declared two motions around a climate emergency and have taken a number of steps to improve their environmental credentials. We do note that this Moderate Opinion on the effectiveness of controls could quickly move to a Limited position if the design elements around the strategy and governance structures are not progressed
Capital Projects	3	-	-	Limited	Limited	• There was a clear lack of contract management controls in place, including insufficient retention of key information for the contract. Moreover poor procurement arrangement has also been evidenced from the Delapre Abbey project. • The Delapre Abbey project was handed over to the last project

						manager in 2016 without any sufficient and appropriate documentations, including financial budgets and cost reports, key performance indicators, previous minutes of contractor performance or a summary of progress, which contributed to the significant overspent over the years • The Council did not identify the previous project managers' lack of expertise required and the Council did not act promptly to ensure the project management issues were rectified.
Social Lettings Agency	1	4	-	Limited	Limited	• There is currently no Empty Homes Officer in place at the agency. The responsibilities of this role are shared between the Housing Advice and Options Service team and the Private Sector Homes team. This may have led to inadequate take up of the scheme as there are only three landlords who have signed up to the private sector leasing scheme. There are currently three properties under the scheme, against an original target of 250 and revised target of 50 • The Project Plan does not detail how the agency intends to measure the success of its communication strategy • The business case and performance reports for the social lettings agency do not specify how the objectives outlined in the business case are measured • The agency does not have a live risk register in place which would allow the agency to monitor existing risks or raise new risks • While a performance framework is in place to identify where additional training is required, there is currently no structured training in place for agency staff.
Self-isolation Grant	-	-	-	N/A	N/A	This was a review of government guidance for self-isolation grant received. It was an advisory and small compliance review with all recommendations accepted and acted upon.
Health and Safety NPH (draft report)	2	1	-	Limited	Limited	This report is currently in draft and with officers for comment. The significant issues in the report relate to those specified in the NPH Management Agreement report above, ie a lack of mutual understanding as to the required health and safety reporting from NPH to NBC.

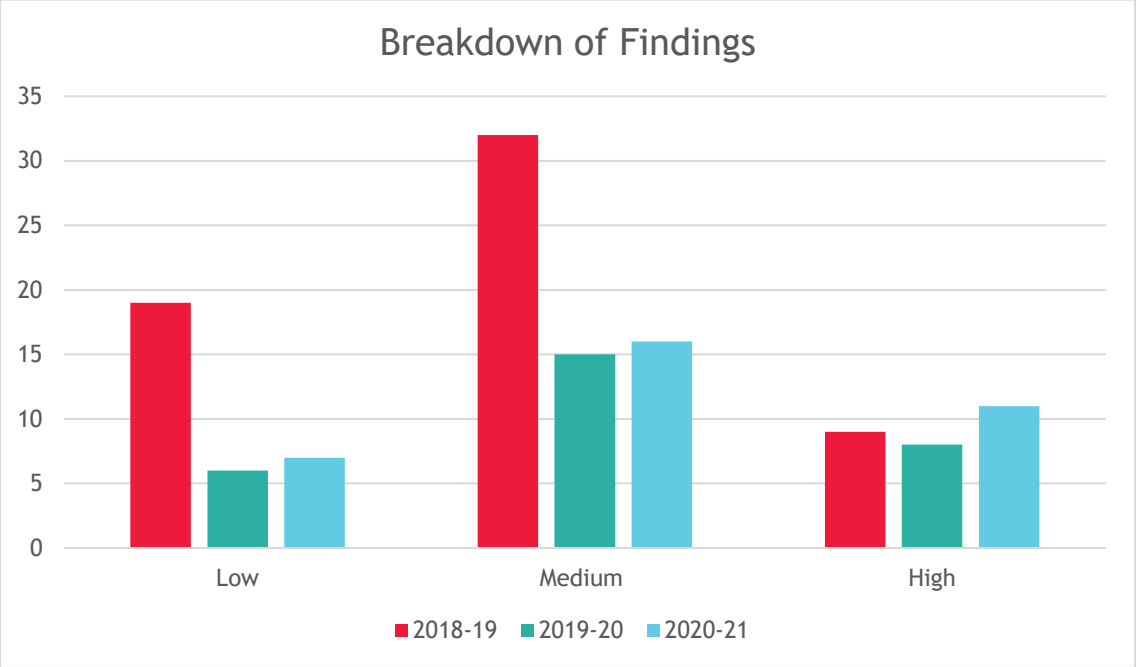
Safeguarding (carried over from 2019-20).	2	4	2	Moderate	Limited	Overall we concluded that the Council has a Moderate control design for the management of safeguarding. Policies around referring and monitoring safeguarding were robust, as were safe recruitment policies for staff and volunteers. The Council also provided reasonable levels of training to staff via the Psittacus e-learning modules. Agreements with partners and contracts with service providers included adequate consideration of safeguarding, requiring the contractors to undertake DBS checks of their staff in some instances. However, there was significant non-completion of the e-learning training modules and where they are completed it took an average of more than 80 days to complete the modules from the point at which they were assigned to staff. Furthermore, actions identified and taken based on the results of the Section 11 survey are inadequate and documentation was not in place and/or inaccessible to evidence the vetting of volunteers. This leads us to conclude that control effectiveness is currently Limited.

SUMMARY OF FINDINGS

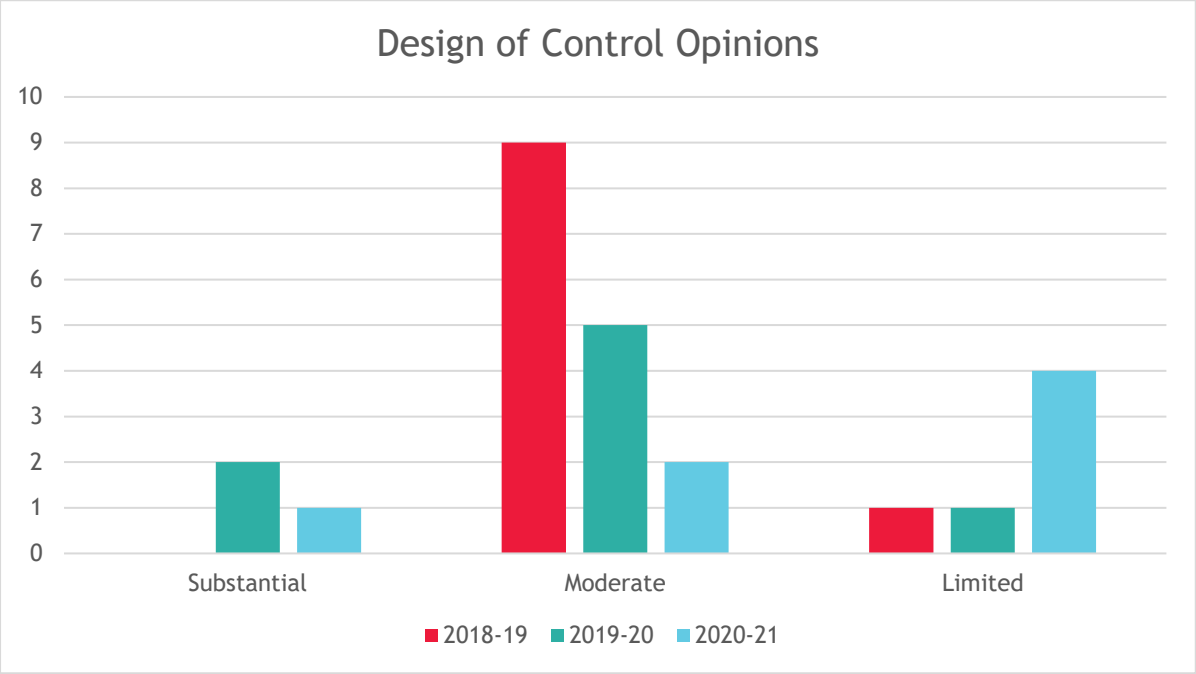
RECOMMENDATIONS AND ASSURANCE DASHBOARD

The chart shows a summary of our recommendations for 2020-21; it also shows the summary based on the previous two year's work.

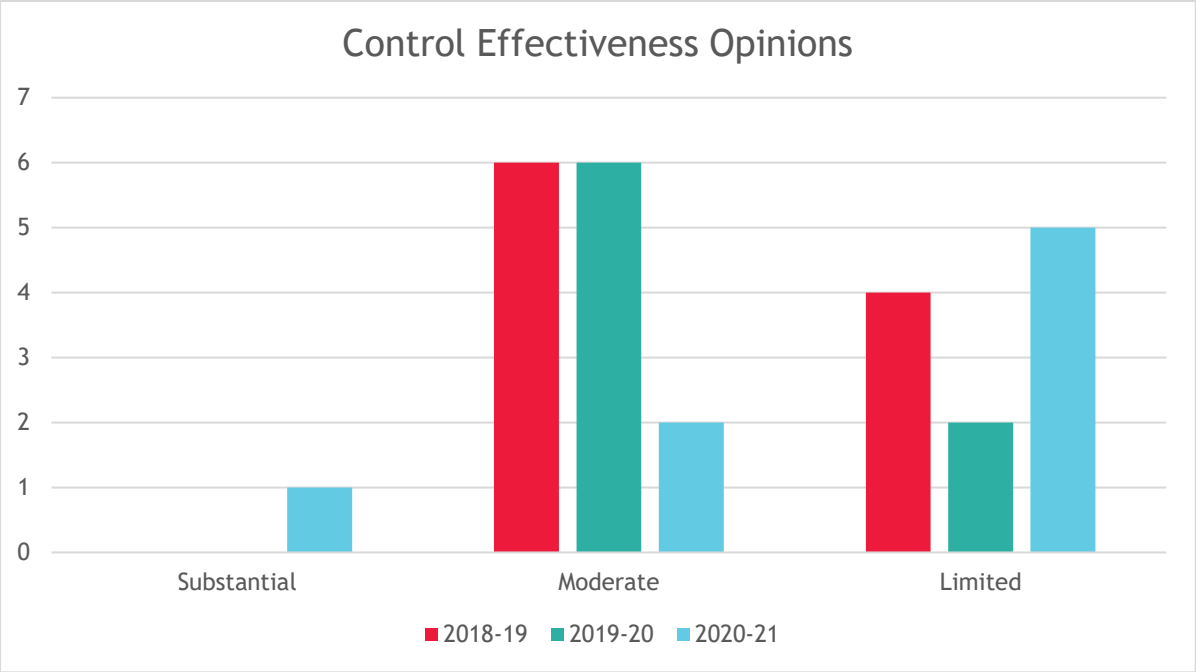
It can be seen that the total number of recommendations has increased from 29 last year to 33 this year. Whilst there has been fewer high findings this year this is also in part to fewer reviews being conducted this year. The chart does show that this year there were more high findings compared to medium and low findings which has not previously occurred.



The below chart outlines the split of Opinions for the Design of Control from 2018-19 to 2020-21. There is a clear increase in 2020-21 of Limited Opinions with more this year than the previous two years combined. There is however one Substantial Opinion this year which is a positive.



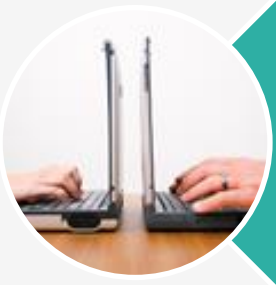
The below chart outlines the split of Opinions for Control Effectiveness from 2018-19 to 2020-21. For the first time we have issued a Substantial for Control Effectiveness which is very positive. However, we have also issued five reports with a Limited Opinion which is more than the previous two years combined.



ADDED VALUE

CONSISTENT QUALITY STAFF

We have kept the same key personnel team throughout the contract and last year. We have deliberately prioritised those staff assigned to the Council to ensure staff who have previously received good feedback were redeployed



RESPONSIVENESS

At the outset of the Covid-19 pandemic we supported the Council in their review of business grants prior to distribution. This involved us quickly deploying a large volume of staff working each day and weekends over April and May 2020. We also conducted a short notice review of the self-isolation grant

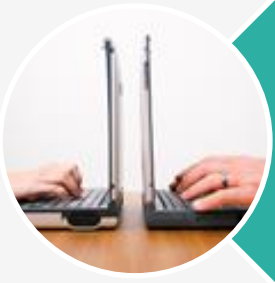
BENCHMARKING AND BEST PRACTICE

We delivered a training session to the Audit Committee on good governance in 2020. We also provided benchmarking and sector analysis in our reports for example, in the Climate Emergency Report we provided examples of good practice strategies

KEY THEMES

GOVERNANCE AND OVERSIGHT

In a number of reviews there is a theme of the Council not having effective arrangements to oversee performance and see through actions. For example, the two reviews relating to oversight of NPH identify control weaknesses where the Council do not have sound arrangements to ensure they discuss, escalate and act upon performance. This was also identified in the safeguarding review where actions were identified as being outstanding for over two years from internal reviews conducted by the Council. Similarly with the social lettings review we found the initial objectives of the agency were not being tracked and reported against effectively. The theme here is that some fundamental elements of governance and oversight were not operating effectively.



FOLLOW UP AND SOME MANAGEMENT ENGAGEMENT

We recognise that in a year when the Council is moving towards Unitary status that completing all actions and management engagement may become more challenging - coupled with the challenges of the pandemic. This being said, there are some long standing actions outstanding as reported in our March 2021 Follow-Up Report. Furthermore there were instances of engagement with management not being effective resulting in reports taking longer than expected to close. These reports also contained high findings which means the Council did not act upon these as soon as they could have.

BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to Northampton Borough Council is to provide an opinion to the Board, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12 month period from 1 April 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by management and the Audit Committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Scope and Approach

Audit Approach

We have reviewed the control policies and procedures employed by Northampton Borough Council to manage risks in business areas identified by management set out in the 2020-21 Internal Audit Annual Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Northampton Borough Council management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

Reporting Mechanisms and Practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

Management actions on our recommendations

The management actions to our recommendations were largely adequate however, with some instances of being inadequacy. Whilst management responses were received for all reports issued there were three reports where this took a particularly long time (multiple months) for responses to be received namely: capital projects, safeguarding and climate emergency. Furthermore, in some reports such as safeguarding despite being informed that robust actions plans would be developed and provided in the management responses we received short responses stating 'Agreed'. This provides less confidence to us as a service that management are committed to the recommendations and have thought through the implications to implement the recommendations. Through wider discussion with management it also became apparent that despite the Council Sponsor approval the report for final that the final report position agreed may not have always been collectively agreed by management which undermines the 'buy-in' for reports and subsequent commitment to complete recommendations. These conclusions do contribute to our overall Opinion.

Recommendations follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

All outstanding recommendations from 2018-19 are deemed complete and with those from 2019-20 having received a reasonable response for subsequent steps to be taken. For recommendations from 2020-21 due to the delays in some reports moving to final as highlighted above, whilst we have conducted a follow-up in March 2021 the Council will not have had sufficient time to close these which reinforces the importance of agreeing reports more promptly as it allows time within the year to demonstrate adequate follow-up.

Relationship with external audit

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

Report by BDO LLP to Northampton Borough Council

As the internal auditors of Northampton Borough Council we are required to provide the Audit Committee, and the Director with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides Northampton Borough Council with **Limited** assurance which means we do believe that there are major weaknesses in the internal control system for the areas reviewed in 2020-21. The statement of assurance is not a guarantee that all aspects of the internal control system are limited. The statement of assurance should confirm that, based on the evidence of the audits conducted, there may be signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2020-21
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to Northampton Borough Council including from LGSS
- Any limitations which may have been placed on the scope of internal audit – no restrictions were placed on our work.

KEY PERFORMANCE INDICATORS

Quality Assurance	KPI	RAG Rating
Quality of Work	Feedback from our reviews were positive – this comes from email and verbal feedback. We have not been able to obtain survey feedback this year due to the large volume of reports coming towards the end of the year in part due to the pandemic and the plan starting later and also due to delays in management responses. However we have not received any negative feedback and in contract meetings feedback has continued to be positive.	
Responsiveness of Service	We have responded to deadlines and adapted to the COVID19 pandemic by engaging with the Council to re-arrange reviews and support the processing of business grants. We supported due diligence on applications at short notice for the 2,407 grants received totalling £30.34 million.	
Completion of Audit Plan	We have completed and finalised all reports as per the Audit Plan and issued our Opinion in March 2021 as expected.	
Follow-up Recommendations	We have followed up on all recommendations due prior to the end of March 2021. The requests for updates were issued to management providing at least six weeks to respond and non-responses escalated with the Section 151 Officer and Governance Manager.	

APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

FOR MORE INFORMATION:

GREG RUBINS

Greg.Rubins@bdo.co.uk

www.bdo.co.uk

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Appendix B

Daventry District Council

Annual Audit Review 2020/21

1. Purpose of Report

This Annual Audit Review is presented in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN).

2. Introduction

2.1 The PSIAS and LGAN require the Chief Audit Executive (the Internal Audit Manager) to produce a formal annual report to the Corporate Governance Committee timed to support the Council's Annual Governance Statement. The report covers the following aspects:

- A summary of the performance of the Internal Audit Service against its performance measures and targets including results of its quality assurance and improvement programme.
- Conformance with the PSIAS (the Standards) and progress against any associated improvement plan.
- Provides an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and internal control environment.
- A summary of the work that supports that opinion including a comparison of work carried out with that planned.
- Discloses any qualification to that opinion and the reasons for it.
- Draws attention to any issues which are particularly relevant to the preparation of the Annual Governance Statement.

3. Information

3.1 The Annual Audit Plan for 2020/21 was endorsed by the Senior Management Team (SMT) and the Executive Director (Finance), as Section 151 Officer, and approved by the Corporate Governance Committee in May 2020.

<u>Performance & Delivery of the Audit Plan</u>

3.2 The Internal Audit Service Plan contains a set of key performance indicators which were originally developed in consultation with key stakeholders and for 2020/21 were agreed with the Executive Director (Finance) during the annual planning and appraisal process. In-year progress against the targets were discussed with the Executive Director (Finance) at monthly 1-2-1 meetings. Some indicators are events which are required to take place during the annual cycle with others more measurable as the year progresses. The Service Plan sits alongside the Audit Plan and together with the quality assurance and improvement programme helps demonstrate the effectiveness of the audit process.

3.3 The 2020/21 results for those measurable indicators are contained in the table below (with 2019/20 for comparison):

Description	2019/20		**2020/21**	
	Target	Actual	**Target**	**Actual**
Productive days made available for the Internal Audit Service	460	415	**477**	**478**
Productive (chargeable) days as a % of total days available	87%	84%	**86%**	**84%**
% Completion of Planned Audits	90%	89%	**90%**	**73%**
% of audits completed within 15% variance of allocated time	70%	64%	**70%**	**67%**

3.4 In terms of resourcing the 2020/21 audit plan, the original plan was devised on the basis that no resource issues were apparent that would impact on its delivery. To enable the true impact from the Covid-19 pandemic, it was determined that the audit plan would not be substantially revised during the year.

3.5 As a consequence the contingency which was built into the original plan was completely utilised. A summary of the Covid-19 impact on audit resources which was calculated at the end of December 2020 is shown below.

Redirection of IA Resources	**Days**
Temporary redeployment of the Senior Internal Auditor to the Finance Team to help administer Phase 1 - Business Support Grants	22.75
Covid-19 - Advice & support (fraud & audit) to management and officers but principally pre & post-assurance for the Business Support Grants	115.25
Covid-19 - Non-effective time operationally as a result of impacts such as lockdown / working from home arrangements, external IT downtime etc.	17.50
Total Days	155.50

3.6 The total days redirected as of December represented 0.60 full time equivalent (FTE) of a member of staff which when compared with the total of 3.22 FTE for the Internal Audit Service is a sizeable impact.

3.7 As a result of this impact a decision with the Executive Director (Finance) was made to increase the hours of the Corporate Fraud Officer to full time from the beginning of December to support the Business Support Grants process and free up the internal auditors to concentrate on delivery of audits in the plan. This provided for an additional 38 days up to the end of March 2021.

3.8 Of note, an additional activity was also absorbed into the service which gained momentum over the course of the year. As part of the Future Northants (FN) programme it was decided amongst the Northamptonshire Chief Executives together with the DDC Executive Director (Finance) & FN Finance Enabler that

all significant procurements would be subject to the same rules as are contained in this Council's Constitution (Part 6F - Contract & Procurement Regulations), which includes the requirement for an audit review prior to contract award to provide additional assurance around the procurement process. The total time associated with this activity amounted to 28.50 days across ten different projects, as detailed in appendix A, with advice provided to officers on other FN procurement activities to ensure compliance.

3.9 As a result of the significant impacts on resources the Internal Audit Service had to adopt an agile approach to providing assurance and advice to management on governance, internal controls, and fraud prevention. Whilst the 2019/20 work was satisfactorily completed in the very early part of the year, the events which impacted on audit resources led to some deviation from the original 2020/21 plan which was acknowledged by Members when it was approved, and subsequently at the progress meetings in September 2020 and January 2021.

3.10 The cancellation or deferral of some audits to the new authority has been inevitable with decisions being made as to what work would be undertaken based on risk, events arising from the Future Northants programme, but ultimately in ensuring sound advice and assurance was provided to management in a timely fashion, made more difficult as vesting day approached.

3.11 The impact on audit resources resulted in the following audits being cancelled / postponed:

- Human Resources / People Management - although a specific audit covering various management and employee related activities has not taken place, audit advice was provided on some related activities during the pandemic such as temporarily revised procedures.
- Planning Obligations (Community Infrastructure Levy) - although last audited in 2016/17 the results from that audit led to greater transparency and governance which continued to be provided by the Resources Working Group in terms of financial control and monitoring.
- Leisure Services SLM - to be considered as part of the audit plan for West Northamptonshire Council (WNC).
- Payroll - management were closely involved in the migration of payroll data across from Firefly (contracted provider) to the new Council. As a result of prioritised resource for dealing with this it was agreed with management to defer the audit to WNC. Historically this area is audited annually resulting in a good assurance opinion.
- IT Cyber Security - despite numerous attempts with our contractor to get this audit off the ground in the last quarter, it eventually proved impractical given the ever-increasing priorities of the ICT Manager as vesting day approached. Further comment is provided in section 4.29.

3.12 The following audits were partially completed by the end of March and despite attempts to complete this work post-vesting day, this proved difficult and beyond our control given the change in management and some officer responsibilities:

- Debtors
- Income Receipting

Historically both systems have demonstrated a strong control environment and our evaluation of both areas confirmed the design of such controls remained the case. We were unable to complete testing of these areas to establish whether there was effective application of those controls. In respect of sundry debtors, it is widely acknowledged that the impact of the pandemic has adversely affected the recovery of debts. Further comment is provided in section 4.11.

3.13 Conversely because of emerging risks (non-Covid-19 related) two audit areas were added to the plan as they required management assurance and/or consultancy advice:

- Acquisition of Properties for Temporary Accommodation- a new project and significant funding was approved by Council during the year. At the request of the Executive Director (Finance) as Section 151 Officer, an audit was undertaken to provide assurance to senior management as to the adequacy and appropriateness of the controls and processes in place for its delivery.
- Travellers Emergency Stopping Places - Income & Deposits - internal control advice was provided to management to enable effective procedures to be put in place, prior to formal submission by management to the Executive Director (Finance) for acceptance.

Stakeholder and Customer Feedback

3.14 Customer feedback is received at two levels, audit assignment and service delivery. In respect of the former, although feedback was rather limited from post-audit questionnaires, continual liaison did take place with all levels of management with any matters being positively responded to, either in respect of an individual auditor's performance or from consideration of improvement to the audit engagement process.

3.15 In respect of service delivery, feedback is normally requested annually from stakeholders (i.e. Members of this committee) and customers (i.e. management). Given the turbulent year and re-directed priorities of both management and staff, particularly as the new unitary authority approached, no questionnaire was sent out. However, as this is the last annual report for this Council it is worth reflecting on the highly satisfactory results received over the years with Members and management continually agreeing or strongly agreeing that Internal Audit is provided an effective service to the Council, and it was of note that last year this was achieved for the 10th year in a row (since the measure was first introduced).

3.16 To help new service managers to the authority in their understanding of Internal Audit's role and how control, risk and governance relates to their service area, a short face-to-face induction takes place, normally within the first three months of them starting. Management have been very appreciative of this opportunity as it helps them to bridge any gap in their knowledge on the governance framework. The positive effect of these interactions helps to foster a good working relationship where management actively seek out internal audit advice and are not afraid to bring matters of concern to our attention.

3.17 During the course of the year the Council's external auditors, Ernst & Young, have been able to place reliance on the outcomes from Internal Audit's work to support their audit of the Council's financial systems and accounts, and those

systems supporting the governance framework. Any adverse audit results are reported to them for their consideration within their scope of work.

Independence & Objectivity

3.18 In seeking to provide an independent and objective opinion for the financial year it is confirmed to management and Members that the Internal Audit Service has remained free from interference in relation to matters of audit selection, scope, procedures, frequency, timing, or reporting.

3.19 Whilst the Internal Audit Manager is responsible for managing the Corporate Fraud Officer, their work and those responsibilities placed on the Internal Audit Service complement each other by examining and mitigating risks to the authority and by identifying improvements to the internal control environment. It is therefore considered that this does not compromise the independence of the Internal Audit Service or impair any judgements it makes.

PSIAS conformance and service improvement

3.20 The Internal Audit Service continued to maintain a comprehensive management and review process for each audit engagement. An audit process checklist provides assurance that each of the key stages of the audit is properly completed to the required standards and is supported by a working file protocol to ensure complete records are maintained. Management reviews took place at critical points in the process. Each review requires the Internal Audit Manager to record an explanation for any gaps in the coverage specified in the audit engagement brief, to endorse or comment upon the standard of quality assurance delivered by the auditor and to identify any issues judged likely to be relevant to the Internal Audit opinion. Furthermore, continuous improvement in the service and its practices also comes from career professional development, liaison with peer groups such as the Midlands Audit Group, and from best practice research.

3.21 Our quality assurance and improvement programme included a continual self-assessment of our service against the professional standards to identify any gaps in conformance and areas for improvement. During the Covid-19 pandemic we continued to maintain our standards and processes despite the challenging working conditions of staff remote working. Minor changes were made to processes to help maintain an effective audit approach and ensure the requisite evidence is obtained in support of our work.

3.22 An External Quality Assessment (EQA) is required to be undertaken once every five years, as a minimum. The last EQA was undertaken by CIPFA in 2017, with no action remaining.

3.23 As the Internal Audit Service was part of the organisation it was required to periodically review and maintain a host of plans and registers. Assessments undertaken in support of the service, included aspects of service, information, health & safety and fraud risk, and an assessment of equality impact.

4 Opinion on the overall adequacy and effectiveness of the control environment drawing attention to any issues particularly relevant to the preparation and review of the Annual Governance Statement (AGS)

4.1 As has already been stated, this Annual Audit Review is one of the elements used to support the AGS. Since it is not viable for any organisation to allocate the resources that would be necessary for an internal audit function to audit the whole control environment each year, it is not possible to give “absolute” assurance about the effectiveness of all control systems within the Council. Instead, internal audit can provide a “reasonable” assurance about the control environment, so that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or detected in a timely manner.

4.2 Responsibility for effective governance, risk management and internal control arrangements remain with management and not Internal Audit who cannot be expected to prevent or detect all weaknesses or failures in internal control nor can the internal audit plan cover all areas of risk across the organisation.

4.3 The Chief Executive and all Members of the Corporate Governance Committee formally received all finalised audit reports. The Chief Financial Officer received all reports of a financial nature. The Senior Management Team (SMT) is requested to pay particular attention to those audits receiving a “minimal assurance” opinion or any of corporate significance. In such cases, the SMT considers management’s response and determines whether any further action or reporting back on progress is required.

4.4 During the year, management continued to monitor the outstanding recommendations on the corporate register of management (audit) action plans at Executive Director 1-2-1s with the Deputy Chief Executive, and during meetings of the Risk Management Working Group. This reporting is further enhanced with a separate list of all outstanding “high priority” recommendations to ensure management are giving them due consideration, and the ICT Steering Group also receives a separate IT-centric report. In addition, meetings were periodically held between the Internal Audit Manager and the Chief Financial Officer to discuss relevant aspects of financial control and governance. In the main Service Managers promptly implemented recommendations as agreed and provided regular updates on progress.

4.5 In line with the audit reporting protocol, each formal audit issued to management is given an assurance opinion based solely on our assessment of the adequacy, effectiveness, and operation of the internal control environment in that area to mitigate risks, and reduce inefficiencies, fraud and error etc. It is not an opinion on the performance of the service. For example, the Council may well have a service that is hitting or exceeding its performance targets and receiving good customer feedback. However, if there are fundamental controls that are either not fit for purpose or are not being adequately applied, then this will have a significant adverse effect on the audit opinion given.

Assurance opinions are classified as:

Full Assurance - There is an adequate and effective system of risk, governance and control in place designed to achieve the system objectives. Controls are being consistently applied.
Substantial Assurance - The majority of controls are in place and operating effectively, although some control improvements are required to enhance the adequacy and/or effectiveness of the risk, governance and control environment. There is some risk that system objectives may not be fully achieved.
Limited Assurance - Certain important controls are inadequate or are in place but not operating effectively. There is considerable risk that the system may not meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of the risk, governance and control environment, and to be able to place reliance on the system for corporate governance assurance.
Minimal Assurance - The majority of controls are weak, not present or failing to the extent that there is a real and substantial risk that the system will fail to meet its objectives and may result in material error / loss or reputational damage occurring. Immediate action is required to improve the adequacy and/or effectiveness of the risk, governance, and control environment. Such assurance matters will be reported to the Corporate Governance Committee.

4.6 Based upon the work undertaken and that summarised in Appendix A, it is my opinion that the overall adequacy and effectiveness of the Council's control environment for 2020/21 is assessed as giving "***Full to Substantial Assurance***". This rating is largely based on the scale used above.

4.7 The table below includes a breakdown of the audit assurance opinions given over the past three years plus the reporting year, summarily represented in an assurance ratio indicator, with two other indicators assessing management's response to implementing recommendations. These indicators are used to monitor the trend and impact on the control environment and provide Members and senior management with a "barometer".

LEVEL OF ASSURANCE *	2017/18	2018/19	2019/20	2020/21
Full	13	15	17	**17**
Substantial	21	23	12	**5**
Limited	1	3	1	**0**
Minimal	0	0	2	**0**
Full/Substantial: Limited/Minimal assurance ratio split Target = 80:20	97:03	93:07	91:09	**100:00**
% of agreed recommendations implemented that are	80%	90%	100%	**100%**

categorised as "high priority" Target = 90%				
% of all agreed recommendations implemented	98%	79%	97%	**95%**

*Note: It should be noted that an opinion is not provided for every audit. Some audits have limited or non-specific coverage or were closure of long outstanding matters, and as a result a revised formal opinion is not appropriate. Therefore, the total figure may not correspond exactly to the number of audits completed in the year.

4.8 Details of the work undertaken during 2020/21 and the outcomes and assurance opinions given for those audits are contained in Appendix A. The first part of the appendix includes a summary of the number of recommendations raised at the point of the original audit and where applicable those remaining following completion of a formal follow up. The figure in brackets indicates the number of high priority recommendations. In addition, a separate schedule similar to the one periodically received by management has been provided in the second part of the appendix detailing those audit management action plans which remained outstanding as at 10/05/2021, together with a brief description of any high priority recommendations. Supporting information regarding the outstanding matters has been passed to the Shared Service Head of Internal Audit for their consideration in reporting on to management of the new unitary authority.

4.9 In respect of the assurance opinion ratio, the performance has been at or above target for the ninth consecutive year. This overall position is testament to management's efforts to maintain and improve the internal control environment over time. To contrast and compare the position of over a decade ago the 2008/09 assurance ratio was 52:48 (which included 22 limited and 7 minimal), with a 42% rate for the implementation of high priority recommendations.

4.10 In respect of the "recommendations implemented" indicators are calculated each quarter on a rolling 12-month basis to provide management with a comparable on-going trend. The end of year position shown is again very favourable and clearly indicates that no apathy has crept in during the pandemic and with the diversion of resources and attention in preparing for the unitary authority.

4.11 During the financial year no audits received a "minimal assurance" opinion and no matters remained outstanding from the Annual Audit Review for 2019/20. However, matters of corporate significance and worthy of highlighting in this report are as follows:

- **Service Inventories** - arising from the Creditors & GPC audit.
  During the year Finance Officers track spend on certain accounts and send quarterly reminders to service areas to add relevant items to their office inventory. Whilst making enquiries regarding this action we identified that service area inventories had not been requested or submitted to the Corporate Custodian in 2020/21, due to the lockdown happening in March 2020. Further enquiries established that most team / service inventories had not updated their inventories in the last 12 months.

A significant increase in spend on office and IT equipment, the majority for home or mobile working, has been observed during the year on GPC card spend. As many of the items purchased by service areas are small portable items, for example laptops, webcams, cameras, monitors, etc., there is a risk that they will not have been recorded as required by the Inventory Office Instruction and as per Financial Regulations (ref: 12. Inventories and Assets), and items may be lost to the business, more so considering the move to the new authority. Although IT Services acknowledged that they would have records of equipment purchased they in no way maintain any record on its future whereabouts.

This matter was also considered a breach of the Constitution and was reported to the Monitoring Officer (and Chief Financial Officer) on 25/03/2021 for their consideration / response. The Monitoring Officer acknowledged the breach but given the little time left before vesting day and an expectation that that at some stage West Northamptonshire Council would likely follow up on the issue, he was only able to issue a message to service and senior management to strongly encourage them to get the inventories up to date at the earliest opportunity. A similar message was also issued by the Corporate Custodian for inventories to be updated by the end of April.

- **Debt Recovery - Council Tax, Business Rates & Sundry Debtors** - Our audit plan routinely includes annual audits of these financial areas. Although our evaluation of controls and testing remained unchanged from previous audits providing good assurance, we were unable to test the effectiveness of the arrangements for the recovery of debt through to legal / enforcement action because of the pandemic and the economic slowdown, understandably affecting people's ability to pay.

  During the year and largely affected by the periods of lockdown, no reminders, final notices, or summonses were issued for Council Tax and Business Rates, and beyond the initial reminder stages for sundry debtors all further recovery action was put on hold. Nationally, enforcement agent's activities were curtailed, and all Court hearings were suspended by the Magistrates.

  Analysis undertaken nationally has seen a sharp increase in tax arears with council tax for 2020-21 reportedly at £4.4bn, an increase of 25% on the previous year, and business rates at £2.5bn, a rise of 75% on the £1.4bn reported by the MHCLG in 2019/20.

  From a control and management perspective the resultant backlog in arrears in normal times would be a significant task to get back on track but given the formation of the new unitary council and the change this has brought about, resourcing and effectively managing the way forward will need to carefully be considered. In respect of sundry debtors, it is understood that legacy debt remains within the same IT systems that were administered by the sovereign councils and for the time being this will remain the case, whilst new unitary debt is being managed by an external shared service arrangement administered by Cambridgeshire County Council. Therefore, management will have to maintain existing practices and processes. From an audit perspective Members can be assured that this aspect is receiving our attention as part of a schedule of financial work in the first part of the financial year agreed with the Section 151 Officer.

Response to the Covid-19 pandemic and the internal control environment

4.12 From the outset of the pandemic the Internal Audit Service worked closely with management to ensure the control environment was not being compromised. An early communication from the Chief Financial Officer to senior management was issued to assert the expectation that management should work with Internal Audit on any revised practices and procedures. This message was reaffirmed by the Monitoring Officer and was positively received by management. Subsequently Internal Audit received numerous requests for audit advice including the consideration of any revised financial processes which were all signed off by the Chief Financial Officer before being adopted.

4.13 Internal Audit also issued separate advice to service management on “Fraud Control in Emergency Management” (guidance from the Cabinet Office) which highlighted the risk of fraud during such times and suggested controls that could be used to reduce the threat. This was expanded upon for local circumstances where the need for staff to be vigilant was expressed whilst they worked in different ways, invariably from home, and emphasised the risks this posed including phishing attempts (where IT Services have been excellent in making staff aware) and from social engineering (by manipulating staff to give up confidential and/or personal information). We also conveyed the desire for management to introduce low-risk fraud controls and checks into processes where they are being undertaken differently, particularly around application forms and payments.

4.14 The Internal Audit Service also provided direct support to the Finance Team in the delivery of business support grants, including pre/post-payment assurance checks, with this work continuing into 2021/22.

4.15 In terms of the context across the public sector and other sectors, the professional bodies such as the Chartered Institute of Public Finance Accountants (CIPFA) and the Institute of Internal Auditors (IIA) advised its members accordingly during the year with guidance from CIPFA issued to address the risk of any limitation of audit scope which may affect the head of internal audit’s annual opinion. Similar experiences to that at Daventry have been observed at those authorities in the Midlands Audit Group and anecdotally some audit teams had a significant diversion of audit resources.

Assurance on council services provided by others

4.16 As part of the audit planning process we consult with management to identify where they obtain their assurance on controls and risks in respect of services provided to the Council by others, either contractually or through partnerships. To help avoid duplication we also contact the respective Internal Audit teams within the organisations where these services are provided to establish when they last undertook audit work in these and when they next planned to, if at all.

4.17 Notable assurance work undertaken during 2020/21 includes the following:

- Rainsbrook Crematorium operated in collaboration with Rugby BC - a follow up of the actions arising from the 2019/20 audit was undertaken with one

matter remaining in respect of Rugby BC maintaining an inventory. Further comment is provided at the end of appendix A.

- West Northamptonshire Joint Planning Unit - the Internal Audit Service provides annual assurance to those partners who financially support the unit. Whilst the 2020/21 resulted in an audit opinion of full assurance, there remained partially implemented two matters from the 2019/20 audit around review and update of the risk register and the documentation of key processes. Both matters were expected to be fully in place by the end of the financial year. It should be noted that the delay in their implementation did not compromised the continued integrity of the function and its administration.

Corporate Risk Management Arrangements

4.18 Under the Council's risk policy a member of the Corporate Governance Committee takes the role of Member "Risk Champion" (currently the Chairman). It is the role of this committee to review the effectiveness of the Council's risk management arrangements. To facilitate this role, it is necessary for the committee to receive periodical reports from management:

- To provide the committee with details of the key risks faced by the Council and how the Council is managing the corporate risks.
- To report on the development of the Council's risk management approach during the financial year; and
- To identify proposed developments in risk management going forward.

4.19 The Risk Management Group has been active in ensuring a co-ordinated, consistent and effective corporate approach to risk management. During the year, the Group has notably dealt with:

- Review of the Council's Strategic Risk Register and consideration of it by the Senior Management Team took place on numerous occasions throughout the year.
- Identification and consideration of new business risks including liaison with the Resources Working Group in respect of financial risks to the authority and the ICT Steering Group in respect of ICT risks.
- Monitoring of the Projects Progress Register which is reported on to the Portfolio Holders Group.
- Reviewed and revised its terms of reference to maintain currency.
- Routinely reviewed progress and activities in respect of business continuity planning including update of the Business Continuity Plan and discussion on the impacts the Covid-19 pandemic.
- Close monitoring and review of Internal Audit management action plans to assess management's focus on implementing outstanding audit recommendations, in particular those of high priority.
- Monitoring of progress towards implementation of the Significant Partnerships Action Plan. This plan takes account of the results of the annual review of partnerships undertaken by management in accordance with the Council's Partnership Toolkit.
- Discussion on areas subject to audit to discuss aspects of control and risk not previously considered.

4.20 A comprehensive and unified process was in place to monitor risks at all levels of the authority involving both Members and officers. These arrangements included:

- Regular review of risk management at Executive Director / Deputy Chief Executive Liaisons, and service risk logs (service/operational, information, fraud) at Executive Director / Service Manager 1-2-1 meetings.
- Quarterly update reports to Portfolio Holders meetings - with a Portfolio Holder being assigned to each risk on the Strategic Risk Register.
- Periodic assessment of the Strategic Risk Register by SMT and endorsement of all reports on risk to committees.
- Assessment and ongoing monitoring of project risk and health & safety risk.

4.21 As part of our internal audit work, each audit provides an assessment of service risk registers and makes recommendations to management on their enhancement. Our overall assessment of the results indicated that risk registers generally provided adequate coverage with only a few instances where we identified additional risks or some enhancements of identified risk for management's consideration. Similarly, evidence of review from the monitoring referred to above indicated that these arrangements were effectively in place across the Council, again with only minor improvements being raised.

4.22 In addition, our internal audit work continued to look at the management of risk and governance arrangements in other management aspects such as information, IT, fraud, projects, and partnerships.

4.23 For the purpose of the Internal Audit opinion, it was still of note that a review of the overarching Corporate Risk Management Policy, last updated in 2016, was overdue, but management took the decision not to review it due to the impending unitary authority. Despite this, arrangements remained fit for purpose and were suitability embedded throughout the Council.

Corporate Governance & Ethics

4.24 The corporate governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has led to the delivery of appropriate, cost-effective services. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The International Standards for Internal Audit consider that organisational ethics, values and culture should be examined by internal audit as an important part of improving an organisation's governance process.

4.25 During 2020/21, the Internal Audit Service contributed to the review and update of various aspects of the organisation's corporate governance framework including the Local Code of Governance and the Annual Governance Statement through the officer working group. Ad-hoc advice was continually given to management and officers on governance and ethics, including aspects of human resources and people management, and the Employee Code of

Conduct. Our fraud work has raised awareness of and promoted appropriate ethics and values within the Council.

4.26 Information-related policies and practices continued to be high on our agenda and advice was provided to the IT Service, the Governance & HR Service, and the Senior Information Risk Owner (the Executive Director (Resources)) on information risk and security matters. We continued to support and promote IT governance through our participation on the ICT Steering Group. External assurance was also provided though the Council's PSN accreditation and the work of our IT audit specialist further enhanced this aspect.

ICT Audit Work

4.27 Given the increased demands on IT Services to help management deal with the operational impacts of Covid-19, and the attention given to the Future Northants IT programme there was inevitably a delay in the undertaking of IT audits earlier in the year which was heeded by the ICT Steering Group. However, towards the latter quarter of the year senior management reinforced the need for audits to go ahead as originally planned i.e. the undertaking of two audits by TIAA Ltd (our IT audit providers):, namely:

- Remote Access to the DDC network and systems ("substantial assurance")
- Cyber Security (audit not completed)

4.28 A review of remote access on the DDC network domain confirmed that in the main the controls tested were effective with the Citrix remote access service effectively set up to support remote workers with its capacity being improved during the year. Two-factor authentication is in place to access the corporate network via the Citrix virtual environment. Private handheld devices are required to be enrolled into a Mobile Device Management solution to ensure device compliance with corporate policy. However, some areas required improvement in security controls and policy documentation including:

- Penetration testing has not been carried out which led to a lapse of the Public Service Network certificate.
- The Citrix virtual environment that is used to remotely access the Council network is not isolated from the operating systems on remote computers.
- The security posture of devices connecting to the Council network is not checked to stop inadequately protected computers from accessing the network.

All areas for improvement have been acknowledged by the DDC IT Services Manager with some matters either being superseded by the setup of IT arrangements for the new unitary authority or are relevant for further consideration by management.

4.29 In respect of Cyber Security, unfortunately due to resourcing and communication issues experienced by TIAA and the unavailability of senior IT staff as vesting day approached, it became unfeasible for an audit to be completed in time. As a compromise to not undertaking the audit management were requested to provide a summary of the plans / arrangements for cyber security for the new unitary. As part of the long lead time towards the new unitary council a group of legacy council IT managers regularly met to discuss and establish improvements for consideration by senior management. As part of those discussions, it was determined that a dedicated cyber security resource

would need to be in place, particularly due to the heightened risk of attacks during the transitional period, and as support for the new organisation moving forward. During the year regular IT security warnings were issued to all staff and following vesting day an info-burst session event was held with staff around raising awareness, which is supported by a suite of new policies and eLearning along with the adoption of Microsoft 365, which has a large suite of security and compliance controls that will become more important as there is a move away from legacy systems towards a Cloud environment.

Counter Fraud Update

4.30 The Council's Counter Fraud Strategy 2018-21 was originally approved by Council in July 2018. The strategy incorporated the Council's assessment of fraud risk as well as that identified nationally, providing a thorough understanding of the fraud horizon and the current and emerging fraud risks to local authorities. A set of actions proportionate to the size and activities of the Council, the risk it faces and the level of resources deployed, is included in the strategy, structured around meeting the aims and objectives i.e. prevention and awareness; detection and investigation; and deterrence.

Despite the impacts on resources during the year some of the activities achieved included:

- Co-ordination of the Council's response to the ongoing National Fraud Initiative. Work took place to complete the matches from the 2019/20 Council Tax / Electoral Register exercise with periodical summary reporting to the Executive Director (Finance) on progress. Co-ordination of the upload of data for the main 2020-21 exercise also took place and arrangements were made for the upload of the Business Support Grants data - a separate exercise despite the pre and post payment assurance checks actively undertaken.
- Issue of fraud bulletins to staff to raise awareness of current and prevalent fraud attempts on local authorities and other large organisations including the continual proliferation of phishing attempts.
- Participation in International Fraud Awareness Week (15-21 Nov) as organised by the Association of Certified Fraud Examiners. Daily emails were issued to encourage employees to:
  - Complete the Fraud Prevention e-learning module.
  - Understand the reasons why people commit fraud.
  - Be aware of the behavioural red flags that can help identify fraud.
  - Think about how fraud could be committed in their service area and consider whether appropriate controls were in place.
  - Speak up if they have concerns about fraud, bribery, or corruption.
- Continual review of fraud risk registers held by service areas as part of the ongoing programme of audits.
- Completion of CIPFA's annual fraud survey which will help set the national agenda against fraud.
- The delivery of service specific training for the various officers in the Community Team, specifically in relation the identify fraud and document verification.

4.31 During the year two formal investigations were commissioned by the Monitoring Officer for the Internal Audit Service to undertake, in line with the Council's Anti-Fraud Bribery and Corruption Response Plan, only briefly mentioned here to ensure confidentiality:

- Finance Team - Transaction (rental deposit) paid to DDC in error - the investigation outcome confirmed there was no irregularity and the monies were repaid to the individual concerned.
- Community Team - Government Procurement Card transaction - the investigation outcome confirmed no cause for further action; however, five organisational learning points were raised and actioned accordingly.

4.32 Several other fraud referrals were considered in the areas of housing, homelessness and disabled facilities grants where matters were delegated to management to lead (as considered necessary by the Monitoring Officer) with support from Internal Audit, or where referral on to other external agencies was made.

4.33 Advice and support was provided to management on various other enquiries and further work undertaken because of the increased risk of fraud due to the Covid-19 pandemic. Fraud prevention advice was also provided to management and staff including the production of a specific web page for the members of the public and businesses.

Non-Audit Areas & Consultancy

4.34 We continued to support and contribute to officer working groups and provide ad-hoc advice to management and staff on internal controls, governance, and risk. Several "high value" projects were reviewed as part of the management requirement for Internal Audit to review processes and documentation prior to contract award. A list of those projects is provided in appendix A.

4.35 Only one breach of the Council's Constitution (Procedure Rules and Regulations) has been identified during our audit work. This matter was covered in section 4.11 of this report.

5. Conclusions

5.1 The Internal Audit Service has always had to be sufficiently flexible to reflect the changing risks and priorities of the Council and during these unprecedented times has needed to be as agile as ever. We continued to tailor the service and direct resources to where it is most needed to help the Council achieve its objectives, whilst also being mindful of the need to provide assurance to our stakeholders on the effectiveness of the governance framework and control environment.

5.2 Despite the expected depletion of the contingency resource built into the audit plan, effective deployment of audit resources was made to deliver as much of the approved risk-based plan as possible, despite the demands on resources that arose because of the effect from the pandemic on Council services and the diversion of management and officer attention to deal with the setup of the new unitary authority.

5.3 In terms of the control environment it became apparent during the year that not all audits on the original audit plan would be delivered, a position which was expected when the plan was originally approved back in May 2020. In not producing a revised audit plan this enabled us to closely measure the impact on resources from events during the year. Despite the situation and in the context of this being the last year for this Council, it is not adjudged that the reduced audit coverage made a significant bearing on the ability to provide an annual audit opinion, as Members should gain confidence from the already established strong cultural environment of governance, risk and internal control, and as management were able to continue to address audit recommendations in a proactive and prompt fashion, notwithstanding other strategic and service priorities.

5.4 Based on the audit work undertaken during 2020/21, Internal Audit has been able to provide a "*Full to Substantial Assurance*" opinion on the Council's control environment. This assurance opinion is based on the results from audits undertaken, our evaluation of the Council's corporate risk management arrangements, and the ongoing input on governance matters. It is also reflective of the assurance indicators used by this Committee as a basis for measuring the year-on-year trend.

Scott Peasland
Internal Audit Manager

South Northamptonshire Council

Internal Audit Annual Report & Opinion 2020/2021

March 2021

cw audit

audit and assurance services

Contents

1 Introduction

This annual report provides my opinion (see section 2) as the Head of Internal Audit to South Northamptonshire Council. It also summarises the activities of Internal Audit for the period 1st April 2020 to 31st March 2021.

The Council is required by the Accounts & Audit Regulations 2015 to "to undertake an adequate and effective internal audit of its accounting records and of its system of internal control, taking into account public sector internal auditing standards or guidance". The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide a written report to those charged with governance, to support the Annual Governance Statement, AGS), setting out:

- An opinion on the overall adequacy and effectiveness of the organisation's control environment ;
- Disclose any qualifications to that opinion, together with the reasons for that qualification;
- Present a summary of the work carried out by Internal Audit during the year from which the opinion is derived, including any reliance that is being placed upon third party assurances;
- Draw attention to any issues the Head of Internal Audit deems particularly relevant to the Annual Governance Statement (AGS)
- Consider delivery and performance of the Internal Audit function against that planned;
- Comment on compliance with these Standards and the results of any quality assurance programme.

The Council should consider my opinion, together with management assurances, its own knowledge of the organisation and assurances received throughout the year from other review bodies (such as External Audit) when producing its AGS.

My opinion takes into account the range of individual opinions arising from risk-based audit assignments that have been reported throughout the year. An internal audit plan was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. **A summary of the work we have performed and delivery against the plan is provided in section 3.**

Alongside the delivery of the operational internal audit work, we have met regularly with Council management to ensure any issues regarding our performance can be highlighted and any necessary action taken to resolve these. Following each audit, management are also requested to provide feedback on the service received. No significant issues or concerns regarding the internal audit service have been raised to date.

I have discussed and agreed this Annual Report and Head of Internal Audit Opinion with the Section 151 Officer. Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are detailed within the progress reports and individual assignment reports that have been issued to the Committee during the year.

2 Annual Head of Internal Audit Opinion

Roles and responsibilities

The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit provides an independent and objective opinion to the organisation on the control environment and plays a vital part in advising the organisation whether these arrangements are in place and operating correctly.

In accordance with PSIAS, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one component that the organisation takes into account in making its AGS.

The Head of Internal Audit Opinion

My opinion is set out as follows:

1. Overall opinion;

2. Basis for the opinion;

My **overall opinion** is that **significant** assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk. The basis for forming my opinion is as follows:

1. An initial assessment of the design and operation of the underpinning risk management framework and supporting processes; and

2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

3. Any reliance that is being placed upon third party assurances.

Limitations to the Head of Internal Audit Opinion

Due to the combined impact of LGR and the Covid-19 pandemic on staff resources and availability, the Council requested that we suspend the work we were doing on the following audits before it was possible to complete sufficient testing to provide an audit opinion:

- Council Tax*
- Business Rates*
- Benefits*

*Also suspended on client request for 2019/20 audits.

In addition, we were not provided with the source documentation we requested for the Partnerships audit and were therefore unable to complete this audit.

It should therefore be noted that the Head of Internal Audit Opinion for the 2020/21 year is based upon the work we have been able to finalise and report upon, recognising that the above limitations in scope and coverage have impacted upon our ability to complete the planned programme of work.

3 Work undertaken during the year

Summary of assurances provided

During the course of the year we have conducted work to provide assurance over financial, governance and operational systems. Appendix One summarises the assurance levels we have given.

Delivery of the plan

A summary of work undertaken is included below:

- During the year we have undertaken reviews of the key controls operating in your core financial systems and your risk management system.
- We also completed audits on a number of operational areas, including s106 Agreements, Disabled Facilities Grants and Homelessness.

We are pleased to report that our work has not highlighted any weaknesses that should be regarded as Significant Internal Control Issues that would require disclosure within your AGS.

Third party assurances

In arriving at our overall Annual Head of Internal Audit Opinion, we have not sought to place reliance on any third party assurances.

Recommendation tracking

All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis and is supplemented by our independent follow-up reviews where this is deemed necessary. Our annual report would normally include a summary of the latest status for each recommendation on the tracking system as at the year-end. However, due to the fact that South Northamptonshire Council will cease to exist as a sovereign Council on 31st March 2021, all recommendations have been closed down on the tracking system. Any recommendations that remain applicable for the West Northamptonshire Council will be shared with the new internal audit team for inclusion on their recommendation tracking system.

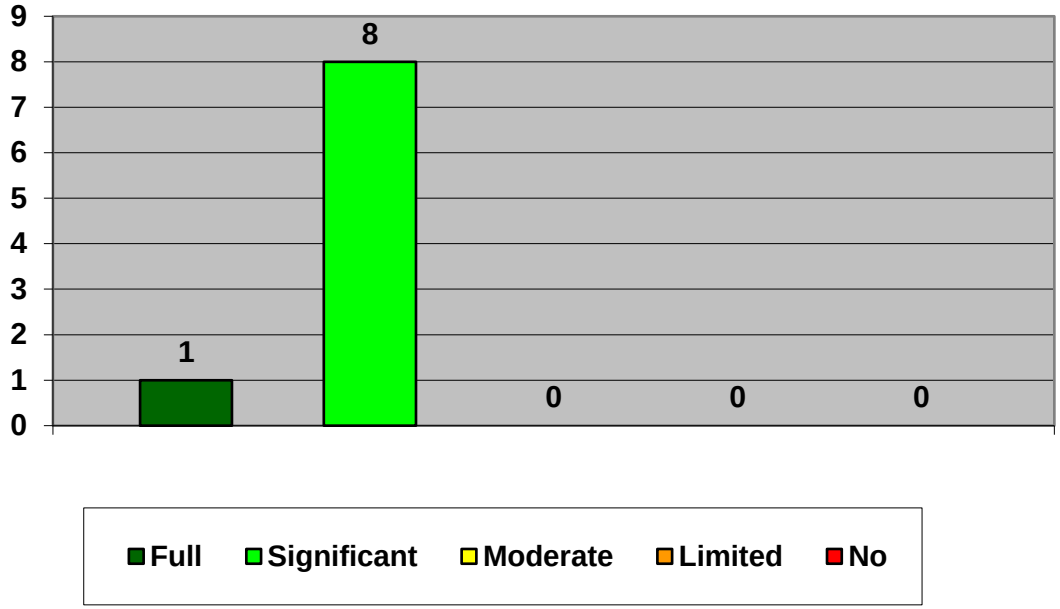
4 Quality Assurance

All audits have been conducted in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), which includes evidenced review by senior management of all audit files and reports produced. I can confirm that there have been no issues of non-compliance with the PSIAS during the course of the year. CW Audit's systems and processes for complying with PSIAS were confirmed as appropriate by an external assessment that was carried out in April 2018. I can confirm that all audits completed during 2020/21 were carried out in accordance with these systems and processes.

Appendix One

Levels of Assurance – Individual Audit Assignments

Description of audit	Assurance level
S106 Monitoring Arrangements	Significant
Homelessness	Significant
Risk Management	Significant
Partnerships	Unable to conclude this audit
Health & Safety	Advisory
Transition to New Authority	Advisory
Treasury Management	Full
Financial Management & Reporting	Significant
Creditors	Significant
Disabled Facilities Grants	Significant
Council Tax	Unable to conclude this audit
Business Rates	Unable to conclude this audit
Benefits	Unable to conclude this audit
Sundry Debtors	Significant
Payroll	Significant



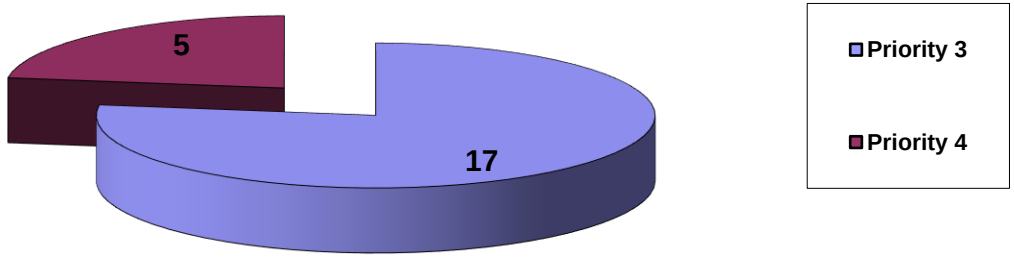
Level of assurance	Criteria
Full	No significant risk issues identified.
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review.
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable.
Limited	Exposure to unacceptable level of risk that could have a serious impact upon the system or process under review.
No	Exposure to unacceptable levels of risk that could have a serious impact upon the organisation as a whole.

Appendix Two

Summary of Internal Audit Recommendations

Recommendations made in 2020/21

Priority	Number
1	0
2	0
3	17
4	5
Total	22



Definition of our risk rankings

Risk ranking	Assessment rationale
1	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of one or more of the organisation's strategic objectives.
2	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, but which are unlikely to impact on any of the organisation's strategic objectives.
3	The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives.
4	The system has been subject to low levels of risk that have, or could, reduce its operational effectiveness.

Appendix D

Internal Audit Service

Annual Report
2020-21

Duncan Wilkinson – Chief Internal Auditor

June 2021

Internal Audit Annual Report 2020/21

Northamptonshire County Council

Table of Contents

Executive Summary

1. Introduction

1.1. The Public Sector Internal Audit Standards (PSIAS) require the 'Chief Audit Executive' to provide an Annual Report to inform the Annual Governance Statement, which is a statement of the effectiveness of the framework of governance, risk and controls in operation within the Council. Northamptonshire County Council's Chief Audit Executive is the Shared Service Chief Internal Auditor.

1.2. The Standards require the Internal Audit Annual Report to:-

- include an opinion on the overall adequacy and effectiveness of the Council's internal control environment,
- present a summary of the audit work on which the opinion is based,
- draw attention to any key issues that may impact on the level of assurance provided,
- provide a summary of the performance of the Service
- comment on the Audit Service's level of compliance with PSIAS.

1.3. The internal control environment comprises the Council's policies, procedures and operations designed to:-

- establish and monitor the achievement of the Council's objectives
- facilitate policy and decision making
- ensure the economic, effective and efficient use of resources
- ensure compliance with established strategies, policies, procedures, laws and regulations
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud or corruption.

It is the responsibility of the Council to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements.

1.4. The role of Internal Audit is to provide an assurance to the Council that these arrangements are in place and operating effectively. The Annual Audit Plan sets out proposals on how this will be achieved in the year ahead. The Council's response to internal audit activity (individual audit reports) should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisation's objectives.

Internal audit is best summarised through the definition within the Standards as an

"Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

2. Internal Audit Opinion 2020/21

2.1. The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to support its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.

2.2. The impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21 to give an annual opinion as required under PSIAS. Operational arrangements and planned work were reviewed regularly to ensure continued service delivery.

2.3. Recognising the struggles and challenges that Audit Sections may face in trying to abide by the requirements of PSIAS, CIPFA produced sector specific guidance on the key requirements to consider in drafting the Annual Report. The guidance highlights instances where a limitation of scope opinion would be proposed. Whilst acknowledging that as a result of the pandemic, the capacity of the Council to respond to internal Audit varied depending on various factors, limitation of scope was not felt to be valid.

2.4. In giving this opinion, there is an understanding that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on the following key requirements as set out by CIFPA

2.4.1. Sufficiency of internal audit assurance work completed to support the annual opinion, (assurance & anti-fraud and risk); **Section**
2.4.2. The results of any ongoing issues that have carried forward into the new Councils; **Section**
2.4.3. The results of work of other review bodies where appropriate; **Section**
2.4.4. The extent and adequacy of resources available to deliver the internal audit work in light of potential impacts of the pandemic; **Section 6**
2.4.5. The quality and performance of the internal audit service and the extent of compliance with the Standards. **Section 7**

Audit Opinion – 2020/21

I can confirm that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of Northampton County Council's internal control environment during 2020/21. In my opinion the Council's framework of governance, risk management and management control is **Satisfactory.** For the most part key governance and risk management arrangements have been maintained

Covid19 has and continues to provide significant challenges to control processes and the audit of them. Audit work throughout 2020/21 has taken into account these issues and pressures, with appropriate measures put in place to ensure continued assessment of the control environment.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

Duncan Wilkinson FCMA CGMA
Chief Internal Auditor

Audit Opinion Categories:

- **Substantial Controls** – findings show that only minimal weaknesses have been found (if any) that present very low risk.
- **Good System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.
- **Satisfactory System of Internal Control**– A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a Good audit opinion to be given.
- **Limited System of internal Control** – Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has started, the current remedial action is not sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **No Assurance** - There are fundamental control weaknesses that present an unacceptable level of risk to the control environment. In simple terms this means there are no effective control systems.

3. Basis of the Opinion

3.1. Internal Audit work completed in 2020/21

3.1.1 In accordance with PSIAS, the Accounts and Audit Regulations 2015, and recent guidance from CIPFA the Chief Audit Executive's annual opinion, is based upon the work performed by Internal Audit during the year and assurance from other sources of assurance.

3.1.2 Work has been planned and performed so as to obtain sufficient information and explanation considered necessary, to provide evidence to give assurance on the effectiveness of the internal control system. Best use was made of Internal Audit resources during the year to maximise assurance, with Audit resource being applied to providing ongoing assurance over activities and arrangements that contributed to oversight of the control environment. The Audit Plan remained fluid throughout the year with audits being removed or introduced to reflect changing risks, and an action plan put in place to enhance internal audit capacity- agreed with the Leadership and Audit Committee. The audit plan year end for Northampton County Council is 31st March 2021.

3.1.3 The opinion reflects the following positive actions taken by Management during the year, involving the Audit Service, that contributed to the control environment being maintained during the year despite the disruption of the pandemic

- Robust financial management arrangements implemented in line with CIPFA Financial management code, including budget monitoring and closer working between Finance, budget managers and Directors
- For the most part risk management arrangements have been maintained with regular review and update of the strategic risk registers. A covid compilation risk register was also put in place as part of the comprehensive covid 19 incident plan, to better manage risks arising from different areas of the Council arising from the pandemic.
- Real time review of procurement transactions for assurance that only essential spend was being undertaken, to better manage outgoings, cashflow and supplier

3.1.4 The following key factors identified from Internal audit work and discussions with Management were deemed to have impacted the effectiveness of controls and risk management during 2020/21.

- Control weaknesses highlighted from Audit reviews including issues over Spreadsheet Import payments; Journal posting authorisations; oversight on procurement card purchases
- As a category 1 responder, it is recognised that the pandemic has had a notable impact on the Council Service delivery, with internal control arrangements having been disrupted, due to staff being redeployed from their normal duties; staff working remotely with limited supervision and increased demand to work at pace with Partners and Central Government to meet emergency demands from businesses and the general public
- Challenges to the control environment from both the changes due to LGSS remodelling of delivery of key services during the year and the increasing need to focus on work to transfer to the new Authorities, while attempting to maintain business as usual.
- Operational disruptions from reduction in available staffing resource from staff needing to self – isolate, shield and work remotely.

3.1.5 The 2020/21 Internal Audit plan, approved by the Audit Committee on 25 June 2020 was always likely to be different to take proper account of assurances required as the transition from NCC to Unitary Councils progressed, but also to take account of the unique challenges created by the Covid19 pressures.
Usually the plan is underpinned by a consultation exercise with management and remains sufficiently flexible to enable assurance over current risk areas, as well as emerging risks, and those risks which are yet to be identified. Consultation was limited to only selected key stakeholders and the risks applicable throughout 2020/21 continued to emerge during the year with the plan being subject to significant changes.

3.1.6 In preparing the overall opinion, the Chief Audit Executive has reviewed all audit activity carried out during 2020/21 and noted any issues arising from audits that have carried forward into 2021/22.

Internal Audit Plan work recommenced in August 2020, following suspension of work on planned audits during the year, in consultation with the Chair of Audit Committee and Executive Director of Finance. This opinion is based on Planned work completed to final/draft stage but also takes into consideration detailed work undertaken by the Audit Service on providing verification and assurance on financial activities undertaken by the Council during this period.

During the year, audit activity included reviews in the following areas

- Assurance work related to the pandemic response, included
  - Analysis of expenditure during the period to highlight and query those not considered essential spend
  - validation of Contract payments via an open book review of suppliers' costs data and provision of assurance over supplier resilience for contractors provided with financial support by the Council

- Key Financial systems – reviews focused on the systems that have the highest financial risk, recording transactions within the 2020/21 financial year.
- Systems based and probity reviews - focused on those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly and targeted towards key areas of high risk, as identified through consultation with senior management, risk register information, and the Internal Audit risk assessment of the organisation.
- Grant certification – verification that monies have been spent in accordance with grant conditions. The level of government grants to support businesses and individuals during the year have increased significantly.
- Information Technology – focused on ensuring security over information/data and IT assets.
- Procurement/contracts –- focused on reviewing adequacy of management of contracts performance and payments and controls over creditor payments.
- Anti-Fraud work – prevention and investigation work.
- Risk and other Consultancy – strategic support and guidance.

All audit reviews contain assurance opinions based on the adequacy of the system of internal control in existence at the time of the audit and on the level of compliance with those controls, reflected as:

Adequacy of System	**SUBSTANTIAL**- Substantial governance measures are in place **GOOD** - Governance measures are in place with only minor control weaknesses. **SATISFACTORY-** Systems operate to a moderate level with some control weaknesses **LIMITED** significant control weaknesses that present a high risk to the control environment. **No ASSURANCE** fundamental control weaknesses that present an unacceptable level of risk to the control environment.
Compliance with the system	**SUBSTANTIAL**- the control environment has operated as intended without exception. **GOOD** -good compliance, although some errors have been detected **SATISFACTORY** control environment has mainly operated as intended although errors have been detected **LIMITED** control environment has not operated as intended. Significant errors have been detected **NO ASSURANCE** control environment has fundamentally broken down

3.1.3 The individual assignment opinion is based on the number of recommendations raised and an assessment as to the likelihood of the risk occurring and the impact to the Council should the risk materialise. Individual recommendations were assessed and categorised as:

- **Essential** –*Action is imperative to ensure objectives for the area under review are met*
- **Important** – *Action is required to avoid exposure to significant risks in achieving the objectives of area under review*
- **Standard** –*Action is recommended to enhance control or improve operational efficiency*

The assurance opinion assigned to the individual audit areas reviewed during the year are as detailed below for information.

Audit type	*Nos of Audits completed*	*System Assurance*						*Compliance Assurance*					
		S	*G*	*SF*	*L*	*NA*	*NO*	*S*	*G*	*SF*	*L*	*NA*	*NO*
Key Financial Reviews	*10*	*1*	*5*	*2*	*1*	*0*	*1*	*0*	*6*	*3*	*0*	*0*	*1*
System Based /Probity reviews	*7*	*0*	*2*	*3*	*0*	*0*	*2*	*0*	*1*	*1*	*3*	*0*	*2*
Information Technology	*4*	*0*	*1*	*2*	*1*	*0*	*0*	*0*	*2*	*2*	*0*	*0*	*0*
Procurement and Contracts	*4*	*0*	*0*	*3*	*0*	*0*	*1*	*0*	*2*	*2*	*0*	*0*	*0*
Grant certifications	*8*	*Assurance given*											
Other Reviews	*7*	*Advice & Support given*											

S=substantial; G=good; SF=satisfactory; L= Limited; NA= no assurance; NO= No Opinion

During 2020/21 there were 5 audit reviews where our opinion was a "limited" assurance opinion against the system design or compliance with system controls (7 - 2019/20). Where finalised, these audits have been reported to Committee during the year and the number of recommendations raised and their categories were as follows:

Audit	No. of Essential Recommendations	No. of Important Recommendations
IT software Licenses	0	6
Spreadsheet Import Payment Interfaces	3	0
Government Procurement Cards	2	1
General Data Protection Act	0	4
Children's Services Complaints Management	0	3

See **Annex A** for the audit assignments and the assurance levels given

3.2. **Recommendation Action Status**

3.2.1 In preparing the overall opinion, the Chief Audit Executive has reviewed the implementation status of recommendations raised during this and previous year as a measure of how the organisation has improved the controls once identified. Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

3.2.2 In line with the current Internal Audit methodology only agreed actions that have been assessed as 'Essential' or 'Important', and that have reached their agreed target implementation date, are specifically followed up. This involves obtaining managements' confirmation of implementation together with appropriate evidence to support the implementation.

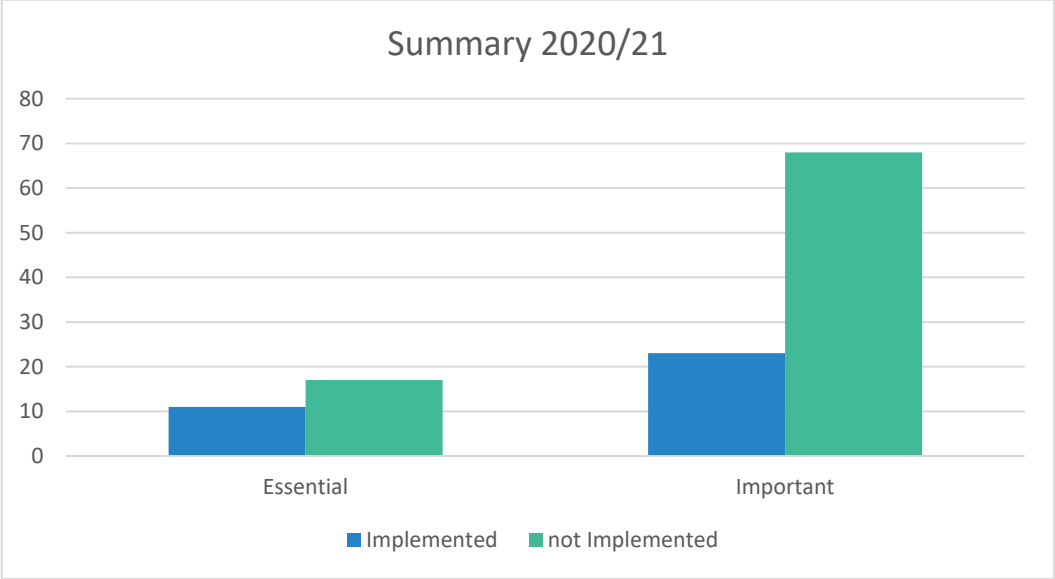
An overview of agreed actions and the implementation of actions in 2020/21 is summarised in Tables 1 and 2:

Table 1: Total Agreed Management Actions 2020/21 (Final/draft Reports)

	Essential	Important	Standard	Total
Number	6	52		58
% of Total	10%	90%		100

Table 2: Implementation of Agreed Management Actions as at 2020/21 (Final/draft Reports)

	Essential Actions	Important Agreed Actions	Total
Recs outstanding 1/6/20	22	39	61
Rec 2020/21	6	52	58
TOTAL	**28**	**91**	**119**
Implemented	11	23	34
Outstanding 30/4/21	17	68	85
Not implemented/being followed up	14	45	59
Agreed Implementation date is after 31st March 2021	3	23	26



3.2.3 Of 119 recommendations made or brought forward, 93 were due to be followed up/ implemented during the year. Only 34 were confirmed as having been implemented- 37%. It is acknowledged that responding to the pandemic has been prioritised and this is reflected in the levels of recommendations not yet followed up and/or implemented. Whilst overall, the results show a reduction in the % of internal Audit recommendations fully implemented when compared with a level of 72% in 2019/20, it is recognised that the oversight process introduced by the leadership team which scrutinised improvement actions from all inspections and audits has been effective in securing improvements in the control environment across the Council.

Where the agreed implementation date for an action is after 30 April 2021, these actions will be followed up prior to the next Audit Committee where their implementation status will be reported on.

3.3. **Anti- Fraud work completed during the year**

3.3.1 Work is undertaken throughout the year to

- *Acknowledge and understand fraud and bribery risks*
- *Prevent and detect fraud*
- *Pursue recovery of losses from identified fraud*

Due to the volume of referrals and the wide range of issues raised, risk assessments are conducted in order to prioritise resources or transfer these to other appropriate bodies. Some referrals are not progressed if there is insufficient basis or evidence held to enable further action but are recorded on the case management system.

3.3.2 Between 1st April 2020 and 31st March 2021, 68 matters have been closed by Internal Audit's Counter Fraud Service. Of these, 29 were either rejected due to insufficient evidence or were referred on to another department or organisation such as the Department for Work and Pensions. The 39 referrals subject to enquiry and investigation are detailed within Table 1 below.

Table 1: NCC closed investigations between during 2020/21

Case type	Total number of cases closed	Outcomes	Value
Internal (corporate) issues	10	Advice was given on all referrals and recommendations made to improve the control environment as appropriate. Q1, -3 matters received relating to email spam from unrecognised sources. Advice was given. Q2, -2 matters; Bank mandate attempt with no financial loss incurred. Report issued following investigation into supplier partnership. Recommendations made to strengthen controls. Q3, - 2 matters; Cash theft of £49 – whereby the loss was reported but the individual responsible could not be identified. Staff identity visa query -assistance given to HR colleagues to assess and confirm there was no issue arising. Q4, 3 matters; two were Bank mandate attempts both reported to Action Fraud, with no financial loss. Referral concerning a staff member having a second job which was looked into with assistance of HR colleagues and closed with no further action due to insufficient evidence.	No financial outcome recorded
Adult social care finance - debt recovery matters	6	Advice given on 6 matters to assist recovery colleagues with debts. locate and trace searches are carried out with a view to reengage with individuals for the recovery process.	No financial outcome recorded
Direct Payments	2	With some assistance from DWP a reassessment was completed reducing the entitlement by £4,082. The other matter was reviewed with advice given.	Reduction to the annual award by £4,082.
No recourse to public funds (NRPF)	21	Support by way of financial screening to assist Social Services assessments for applications under s17. All referred applications were reviewed - 19 were deemed eligible for support and two applications were refused when financial circumstances were assessed. The notional value applied nationally for NRPF cases is £11,000 per family (outside of London) based on research in 2011.	Notional value applied nationally for two NRPF cases. £22,000

Case type	Total number of cases closed	Outcomes	Value
		Supported cases are continually monitored for changes in circumstances.	
Total	39		£4,082 actual annual saving, £22,000 notional savings.

Progress on open cases

Table 2: Open cases under investigation carried forward into new Councils

Case type	Total number of open investigations / detail
NRPF (1 open case)	Recent applications have been received and support is being given to assist the assessments and conduct financial screening.
Direct Payment (1 open case)	Investigation to establish the facts with partner agencies regarding a service user who may have exaggerated circumstances to maximise direct payment award has been reassessed and reduced significantly. Appeal has been submitted by the service user.
Theft of petty cash incidents	Two incidents have been reported concerning petty cash held for service users which has been stolen.
Bank Mandate	Incident is being investigated whereby bank details have been changed causing a loss.

3.3.3 Monetary Values -Internal Audit's Counter Fraud Service record investigation outcomes and, where possible, record monetary values identified through fraud or error by way of recoverable overpayments or savings. Sometimes this is an actual monetary saving, for instance where a direct payment case is reviewed and reduced.

Sometimes an estimated saving will be recorded for instance where a NRPF applicant is refused due to withholding financial information or withdrawn because they no-longer wish to apply for support, a notional saving is recorded of £11,000. This figure is quoted from 2011 research by London Borough of Islington for average costs for accommodation and subsistence for families being supported by councils outside of London.

3.3.4 National Fraud Initiative (NFI) -Internal Audit and the Counter Fraud have assisted with highlighting awareness to the increased exposure to fraud associated with the C19 situation which has been actively targeting councils grant application schemes and other cyber fraud.

The 2020/21 National Fraud Initiative started in September 2020 for extraction of data sets across a variety of service areas. The data upload has yet to be completed and matched data will be review by Counter Fraud according to risk priority, when received.

3.4. **Risk and Other consultancy work completed during the year**

3.4.1 The Internal Audit has worked with the respective Risk owners across the Council during the year, in order to review and revise triggers, consequences, controls and, where appropriate, action plans for each of the Corporate Risks. The engagement with senior managers is ensuring that the risk register is continually reviewed and updated and audit testing confirmed that the process is embedded across the Council.

3.4.2–During 2020/21 consultancy work has included commentary on the Financial System data migration transition project and the Council's Covid 19 response via a debriefing review in consultation with the emergency planning teams. The Audit team have also undertaken work on investigations relating to concerns raised by management.

4. Other Key Issues

In preparing the overall opinion, the Chief Audit Executive has to review Issues having a bearing on the 2020/21 opinion, carried forward into 2021/22.

Various Covid 19 grants received from the Government will need to be tracked and verified to ensure that the funds have been used in accordance with grant conditions, to achieve the desired effects and to minimise possibility of having to repay funds. With the closure of the County Council and formation of the unitary Councils, there is scope for grants not being properly identified/allocated.

The focus on getting to a safe and legal position for the new unitary Councils has meant resources were diverted from business as usual, coupled with staff continuing to work remotely as a result of the pandemic, have an ongoing impact of on the adequacy of the control environment at the end of the year.

5. Other work and work of other assurance providers

5.1 During the year, Internal Audit has provided assistance on various investigations and input to areas of concern raised by management.

5.2 In 2020/21, Internal Audit has continued to maintain a focus on review of financial and other policies and procedures to ensure that these are: up to date; fit for purpose; effectively communicated and routinely complied with across the organisation. During the year, the anti-fraud and corruption policies were reviewed and submitted for approval and compliance with the Contract Procedure rules evaluated

5.2 Internal Audit testing confirmed that grants received by Northamptonshire County Council requiring sign off by the Chief Internal Auditor and the Chief Executive, have been spent in accordance with grant conditions, including the troubled families grant process.

5.4 The Council was subject to various external inspections during the year, feedback from which was good in the main as regards service delivery and these include

- Recommendations made as a result of Peer review of financial management practices all of which have all been implemented.
- Children Services delivered by NCC was subject to a monitoring visit by OfSTED on 14/15 January 2020, following an inadequate grading from a focused visit in June 2019. The

monitoring visit highlighted some improvements, noting that "risks to children are being better identified at the front door and children are now being seen more promptly.

- The quality of Adult Social Services is monitored by Multi Agency Board, who highlighted areas for improvements.

Implementation of all the improvement actions/recommendations were monitored via the Corporate combined Action tracker submitted to the leadership Team on a monthly basis and Audit Committee on a quarterly basis.

5.5 The Council's Financial Statements for 2018/19 were approved in September 2020. An unqualified opinion was issued by the external auditors on 31 March 2021. The external audit of the draft statement of accounts for the year ended 31 March 2020 has not yet been completed by the external auditors. The newly created West Northamptonshire Council will be charged with overseeing the completion of the audit of the 2019/20 Statement of Accounts.

6. Internal Audit Resources

The Internal Audit and Risk Shared Service operates with staff occasionally expected to work across partner sites. Throughout 2020/21, this has continued with cross partner audits being completed. The changes to the plan and changes to accommodate client staff working differently has required Audit resources to be used differently during the year.

7. Service Performance and Quality

7.1 **Plan Delivery-** The 2020/21 Internal Audit plan, approved by the Audit Committee on 25 June 2020 was always likely to be different to take proper account of assurances required as the transition from NCC to Unitary Councils progressed, but also to take account of the unique challenges created by the Covid19 pressures. The Plan remained fluid and was revised several times during the year, to reflect the changing risk landscape. Despite the challenges of remote working and access to client staff being difficult, as at 30 April 2021, 85% of the Plan agreed as at February 2021 committee had been completed to draft stage, against a target of 95%.

7.2 **Productivity** – As at the end of March 2021, the team's productivity is at 90% which is in line with the target.

7.3 **Customer Feedback** -Continuous development in the quality of the internal audit service remains a key objective. In order to obtain feedback from the organisation, when final reports are issued, a link to an online Customer Feedback Questionnaire is provided to all officers who receive the final report. Respondents are requested to rate the overall satisfaction with regards to audit, with four options from Excellent – Poor. Respondents also have the opportunity to provide more specific detailed feedback.

For the financial year 2020/21, six customer surveys responses have been received, of which 2 rated the service as excellent and 4 as good.

7.3 **Quality Assurance & Service Development**

A revised Internal Audit Charter will be approved by the Audit Committees of the respective new unitary authorities at their first meetings in 2021. The Charter aims to ensure that the service remains effective and focused on providing a modern, independent and objective assurance

function to Councillors and management. Our code of conduct requires auditors to complete both an annual declaration as well as an assignment declaration for each audit undertaken.

Our work is guided by an Audit Manual based on PSIAS, which references our processes and documents and working papers are designed to ensure consistency of delivery and adherence to auditing standards.

Prior to issuing a report draft, following a closing meeting with the Client, each assignment undergoes a quality control process. The audit file and report are subject to a review and challenge by the Audit Manager.

As part of the shared service, there are opportunities to enhance and develop the audit team through joint working and sharing of good practice across Partner organisations. In 2020/2021 the partners provided additional opportunities to work together and share expertise and experience, as well as audit efficiencies, as system controls around ERP will only need to be audited once for all the partners (local transaction testing will still need to be undertaken).Development needs are identified through monthly one to one meetings and the annual appraisals.

7.4 **Compliance with PSIAS**

An external assessment of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS) was undertaken in 2016/17, which found that the Internal Audit function and management arrangements demonstrated full compliance with the majority of the Standards.

In line with PSIAS requirement for a 5 yearly external assessment, the Internal Audit Shared Service will be subject to an assessment in 2021, by an independent qualified external assessor.

Throughout 2020/21 the Internal Audit Service worked in line with the Public Sector Internal Audit Standards.

ANNEX A

Summary of Reviews Completed 2020/21

The table below summarizes the Internal Audit reviews that were completed during the 2020/21 financial year, excluding counter fraud investigations which are itemised separately in the body of the report

AUDIT TITLE	STATUS		Control Environment Assurance	Compliance Assurance	Organisational impact
Carried Forward 2019-20 Audits					
VAT		Final Report	Satisfactory	Satisfactory	Minor
IT Software Licensing		Final Report	Limited	Satisfactory	Moderate
Complaints Management - Adults		Final Report	Satisfactory	Satisfactory	Minor
Complaints Management – Children's Services		Final Report	Satisfactory	Limited	Minor
GPC		Final Report	Satisfactory	Limited	Minor
GDPR		Final Report	Good	Limited	Minor
Contract Procedure Rules		Final Report	N/A	Good	Minor
Financial Vetting of Contractors		Final Report	Satisfactory	Satisfactory	Minor
Contract Management – Cleaning		Final Report	satisfactory	Satisfactory	Minor
PH- Drugs and Alcohol Treatment		Field work			
Bank Rec		Deferred	Findings rolled into 20/21		
General Ledger		Deferred	Findings rolled into 20/21		
2020/21 – Audit Review					
Accounts Payable		Final Report	Good	Good	Minor
Accounts Receivable		Final Report	Good	Good	Minor
Bank Reconciliations		Final Report	Good	Good	Minor
Payroll		Final Report	Good	Good	Minor

AUDIT TITLE		STATUS	Control Environment Assurance	Compliance Assurance	Organisational impact
Debt Recovery		Final Report	Satisfactory	Satisfactory	Minor
IT Financial Controls		Final Report	Good	Good	Minor
Pensions		Final Report	Substantial	Good	Minor
Financial Management Improvement Plan		Final Memo	Assurance Given		
Spreadsheet Import Interfaces		Final Report	Limited	Satisfactory	Moderate
LGSS -Repatriation Review		Final Memo	N/A	N/A	N/A
Children's Trust – Service Contract Delivery Monitoring		Final Memo	N/A	N/A	N/A
LGR Governance		Final Memo	N/A	N/A	N/A
LGR Financial Systems transfer arrangements		Final Memo	N/A	N/A	N/A
C19 -Spend Analysis (April -July 2020)		Final Memo	N/A	N/A	Assurance Given
C9 – Pandemic Debrief		Final Memo	N/A	N/A	
Contract Register		Final Report	Satisfactory	Good	Minor
IT Audit – Patch Management		Final Report	Satisfactory	Satisfactory	Minor
IT Audit – Application User ID Admin		Final Report	Good	Good	Minor
IT Audit – Application systems Password Security configuration		Draft Report	Satisfactory	Good	Minor
Market underwriting -Business Service Continuity		Draft Memo	N/A	N/A	Assurance given
Trouble Families -Grant (Q1 - Q4)		Complete	N/A	N/A	Certified
Blue Badge New Criteria Grant		Complete	N/A	N/A	Certified
Bus Service Operating Grant		Complete	N/A	N/A	Certified
Transport Grants		Complete	N/A	N/A	Certified
Covid Bus Service support		Complete	N/A	N/A	Certified

AUDIT TITLE		STATUS	Control Environment Assurance	Compliance Assurance	Organisational impact
Foster Care Payments- follow up		Complete	N/A	N/A	Assurance given
Social Care Transport- Follow up		Complete	N/A	N/A	Assurance given
Youth Offending Service -follow up		Complete	Good	Good	Minor
General Ledger		Field work			
Treasury Management		Field work			
Payment to Early Years		Fieldwork			
Public Health Integrated Sexual Health		Field work			
Schools Assurance		Field work			
Asset Condition Survey Programme		Fieldwork			
Market Underwriting – supplier Resilience		Field work			
Highways Service contracts management		Deferred to 21/22			
VAT		suspended			

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**South Northamptonshire Council - External Audit Annual Audit Letter Year Ending 31 March 2020**
Report Author	Audra Statham – AD Finance (Accountancy) audra.statham@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	19/07/2021
West S151	Martin Henry	19/07/2021
Other Director/SME	Audra Statham	19/07/2021

List of Appendices

Appendix A – South Northamptonshire Council Ernst & Young Annual Audit Letter for the year end 31 March 2020.

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to present to the Committee the Annual Audit Letter for South Northamptonshire Council for the 2019/20 year.

2. Executive Summary

2.1 The external auditor is required to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they consider should be brought to the attention of the Council. They reported the draft detailed findings from their audit work to the 30 March 2021 meeting of the South Northamptonshire Council Audit Committee. The Annual Audit Letter is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2019/20 Annual Audit Letter for South Northamptonshire Council.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's annual audit letter at appendix A sets out:

- The purpose of the letter
- The responsibilities of the Appointed Auditor and the Council
- Financial statement audit work
- Value for money work
- Other reporting issues
- A focus on the future
- Details of the Audit fees

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

South Northamptonshire Council

Annual Audit Letter for the year ended 31 March 2020

22 April 2021

Building a better working world

Contents

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.psaa.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 Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel Ball, 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to South Northamptonshire Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▸ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.
Impact on our risk assessment	
▸ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▸ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▸ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
▸ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ▸ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ▸ Agreed IPE to scanned documents or other system screenshots.
▸ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that the Council have put in place proper arrangements to secure value for money in its use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 24 March 2021 and presented to the Audit Committee on 30 March 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 March 2021.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Maria Grindley
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the Audit Committee on 30 March 2021 , representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work was undertaken in accordance with the Audit Plan that we issued on 18 May 2020 and the subsequent scope updates communicated through the draft audit results report we issued on 09 September 2020. Our audit was conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors, we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any additional audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 March 2021.

Our detailed findings were reported to the 30 March 2020 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Inappropriate capitalisation of revenue expenditure due to fraud or error 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. From our risk assessment, we have assessed that the risk manifest itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund. Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts, so we focused on the judgement applied to these classifications. We focused our substantive testing on the risk of incorrectly classifying revenue expenditure as capital additions, this would decrease the net expenditure from the general fund, and increase the value of non-current assets.	We: • Examined invoices for significant additions, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS16. • Extended our testing of items capitalised in the year by lowering our testing threshold. • Reviewed a larger random sample of capital additions below our testing threshold. • Tested REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. • Identified and reviewed the basis for significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. Based on the procedures we performed, we have reached the following conclusions: • We did not identify any evidence of material management override. • We did not identify any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions. • We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of Property, Plant and Equipment ("PPE") and Investment Property ("IP") The value of PPE at £23.924 million and Investment Properties IP at £1.459 million, at 31 March 2020, represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements on inputs and apply estimation techniques to calculate the year-end balances in the balance sheet. These judgments cover both assets that are revalued within the year and, the continuing material accuracy of those valued in prior periods. The Council engaged an external expert valuer who applied a number of complex assumptions to these assets. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation and there is a risk fixed assets may be materially misstated. 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. Following Covid-19, The Royal Institute of Chartered Surveyors (RICS), has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.	We focused on the valuation assertion of large assets. This is because valuing such assets is difficult and requires a substantial amount of experience and knowledge and relies upon judgement and estimation. Due to it being a highly judgmental area of the accounts and the high value of the items, we engaged valuation specialists to assist us with evaluating the adequacy of methodologies and assumptions employed by the management and it's specialists. We, using our EY Real Estate specialists: • Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. • Sample tested key asset information used by the valuers in performing their valuation and challenged the key assumptions used by the valuer. • Considered the annual cycle of valuations to ensure assets have been valued within a 5 year rolling programme as required by the CIPFA Code of Practice for PPE and annually for IP. • Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated. • Considered changes to useful economic lives as a result of the most recent valuation. • Confirmed that accounting entries have been correctly processed in the financial statements. During our audit procedures, we identified two difference in the PPE valuation: • The value of Brackley Leisure Centre was recorded at £7.24 million in the draft accounts. However, the valuers did not take account of the 2018 extension to the leisure centre and have now revalued it at £13.49 million. • Tove Depot was also revalued on a Depreciated Replacement Costs basis as we believe that this is a more appropriate valuation methodology. There was a minimal increase in value of £7,466. Other than the above finding, we concluded that the valuation of PPE and IP is material correct as of 31 March 2020.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Inherent Risk	Conclusion
Going Concern Disclosure This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states: *'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'* *'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'*	We have: ▸ Discussed the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21; and ▸ Continued to assess the adequacy of disclosures required in 2019/20, and the impact on our opinion, should these be inadequate. ▸ Obtained managements going concern assessment and review for any evidence of bias and consistency with the accounts; ▸ Reviewed the financial modelling and forecasts prepared by the Council. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to the date of 12 months after the signing date of the accounts and opinion; ▸ Ensured that an appropriate going concern disclosure has been made within the financial statements; ▸ Reviewed the Council's approach to identifying and disclosing events after the balance sheet date; and ▸ Considered the impact on our audit report and comply with EY consultation requirements. Based on the procedures performed we are content that the Council will have a positive cash balance at least 12 months from the date the audit opinion is signed. In addition, we are also content that the assumptions used by management as part of their going concern assessment are prudent and realistic. However, we identified some improvement points in the going concern and Covid-19 disclosures included in the draft financial statements. Management have amended the financial statements to take into account the improvement points noted, as well as to disclose the upcoming organisational change and how this ties into going concern.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Going Concern Disclosure (cont'd)	The functions and services of South Northamptonshire Council are due to be transferred to West Northamptonshire Council on 1 April 2021. We have considered this as part of our going concern assessment, and no issued were identified as a result of this. We have also ensured that the organisational change has been sufficiently disclosed in Note 6 and Note 7 in the financial statements. We have include an emphasis of matter disclosure in our audit opinion, to draw attention to Note 6 and Note 7 in the financial statements, which discloses the local government reorganisation in Northamptonshire. As stated in this disclosure, a new council called West Northamptonshire Council will replace the Authority in April 2021. The Authority's assets, liabilities, services and functions transferred to the new West Northamptonshire Council on 1 April 2021. Our opinion is not modified in respect of this matter.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Areas of Audit Focus	Conclusion
Pension Liability Valuation The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £31.155 million. The information disclosed is based on the IAS 19 report issued to the Council by the designated actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We have performed the following procedures to address this risk: ‣ Liaised with the audit team of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. ‣ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PwC, the consulting actuaries commissioned by the PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. ‣ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures. As highlighted above, the auditor of Northamptonshire Pension Fund provides assurances to the South Northamptonshire Council audit team regarding the information that is supplied to the actuary (Hyman Robertson) to allow them to complete their year end pension valuation. The assurances received from the Pension Fund auditor highlighted a difference between the total fund asset values at 31 March 2020, that were used by the actuary, and the value that they tested as part of their year end audit. The estimated impact of this difference on South Northamptonshire Council's financial statements is that the pension liability is understated by £0.1m. Although this is material, management agreed to amend the financial statements for this.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £766k (2018/19: £785k), which is 2% of gross expenditure on provision of services. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We communicated to the Audit Committee that we would report to the Committee all audit differences in excess of £38k (2018/19: £39k).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: we agreed all disclosures back to source data and approved amounts.
- Related party transactions: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

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

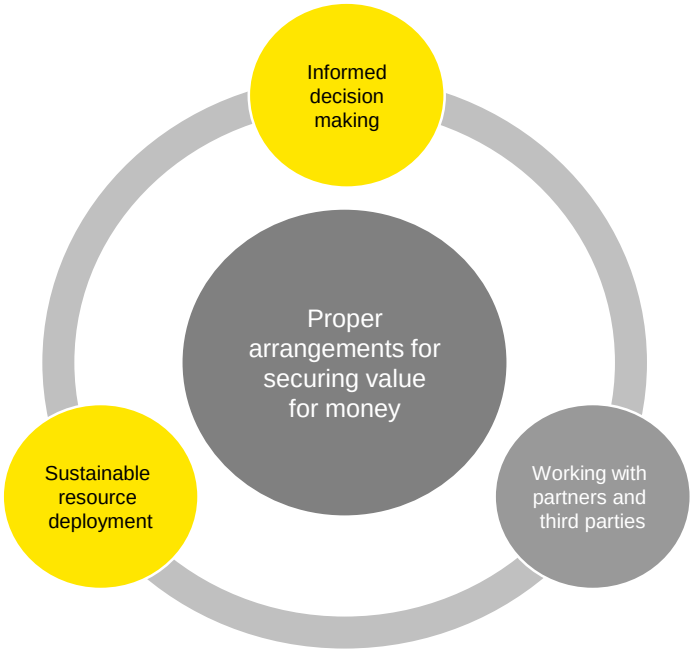
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

At the time of planning, we identified no significant risks relevant to our value for money conclusion. However, with the advent of unitary status in Northamptonshire, we kept a watching brief on the Council's preparations for unitary status from 1 April 2021.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, , however we note that the planned governance structure has been delayed as key officers are responding to COVID-19. Interim arrangements have been put in place.



Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500m. Therefore, we were not required to perform any additional audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 30 March 2021. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19. However in response to the ongoing pandemic and its pressures on council finance teams, CIPFA announced that the implementation will be deferred until the 2022-23 financial year. CIPFA has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.	There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Section 8

Audit Fees

Audit Fees

Our base fee for 2019/20 is in line with the scale fee set by PSAA / as agreed in our Engagement Letter and reported in our 24 March 2021 Audit Results Report.

Description	Final Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work (NB scale fee = planned fee for 2019/20)	32,812	32,812	32,812
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	37,877		
Revised Proposed Scale Fee			
Additional specific one-off work required for Covid-19 considerations (see Note 2)	13,728		
Additional work required for significant risk on PPE valuation (see Note 3)	4,965		
Total Audit Fee	**89,382**		
Non Audit Services – Housing Benefit Subsidy Claim Certification (See Note 4)	**35,190**		**17,000**

Note 1
For 2019/20 the scale fee has been re-assessed to take into account a number of risk factors as outlined below:
- Procedures performed to address the risk profile of the Council - £9,538
- Additional work to address increase in Regulatory standards - £25,727
- Client readiness and IT support for Data Analytics - £2,612

This additional fee has not been agreed but has been highlighted to Management and is subject to review and approval by the PSAA Ltd.

Note 2
We have quantified the additional work we have undertaken during 2019/20 as a result of Covid19, outlined below:
- Additional going concern considerations, including consultation processes – £7,495
- Reassessment of materiality and risks – £1,634
- Additional costs due to remote working – £2,875
- Impact on value for money conclusion – £1,724

The additional fee has been agreed with the assistant DoF and s1511 officer. We will be seeking PSAA approval.

Note 3
We have quantified the additional work completed during 2019/20 we have undertaken for significant risk on PPE valuation. The additional fee has been agreed with Section 151 Officer. We will be seeking PSAA approval.

Note 4
The fee for HB Subsidy is dependent on the extent of additional 40 plus testing workbooks required. Our fee includes a base fee of £4,590 plus £3,060 for each 40 plus workbook required, of which there were 10.

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ED None

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Daventry district Council - External Audit Annual Audit Letter Year Ending 31 March 2020**
Report Author	Audra Statham – AD Finance (Accountancy) audra.statham@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	
West S151	Martin Henry	
Other Director/SME	Audra Statham	

List of Appendices

Appendix A – Daventry District Council Ernst & Young Annual Audit Letter for the year end 31 March 2020.

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to present to the Committee the Annual Audit Letter for Daventry district Council for the 2019/20 year.

2. Executive Summary

2.1 The external auditor is required to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they consider should be brought to the attention of the Council. They verbally reported the detailed findings from their audit work to the 21 January 2021 meeting of the Daventry District Council Governance Committee. The Annual Audit Letter is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2019/20 Annual Audit Letter for Daventry District Council.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's annual audit letter at appendix A sets out:

- The purpose of the letter
- The responsibilities of the Appointed Auditor and the Council
- Financial statement audit work
- Value for money work
- Other reporting issues
- A focus on the future
- Details of the Audit fees

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

Daventry District Council

Annual Audit Letter for the year ended 31 March 2020

May 2021

Building a better working world

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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.psaa.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 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 Annual Audit letter 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 Hywel Ball, 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Daventry District Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We issued our audit report on 30 March 2021. The delay was due to management establishing West Northamptonshire Council's budget for subsequent years. This was reviewed by our technical team to support our going concern assessment for next 12 months from the date of audit report.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ► Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ► Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's :	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended. Our audit opinion included an emphasis of matter paragraphs on Other Land & Building and Investment property valuation and on Local Government Reorganisation (Districts). These are not modifications or qualifications to the audit report
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
► Public interest report	We had no matters to report in the public interest
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was presented to the 24th September 2020 Corporate Governance Committee and a further update was provided on 21 January 2021
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 March 2021

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 24th September 2020 Corporate Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 26th May 2020 Corporate Governance Committee. Our audit is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 March 2021.

Our detailed findings were reported to the 24th September 2020 Corporate Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	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 Council's normal course of business
Misstatements due to fraud or error - Inappropriate capitalisation of revenue expenditure 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 and REFCUS as an area of risk, given the extent of the Councils capital programme.	We did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position through the inappropriate capitalisation of revenue expenditure.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of Property, Plant and Equipment and Investment Properties The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 has impacted the valuation of the Authority's investment properties and other assets valued using market data as outlined by the Authority's valuer. This is because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. The Authority has included in Note 6 of the accounts reference to the valuers material uncertainty. Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. We have also considered those assets that were not valued in 2019/20 and the potential for material misstatement in the valuation of those assets. We engaged our valuations specialist (EY Real Estates) to review a sample of other land & buildings & investment properties asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.	The Council's internal valuer did disclose a 'material uncertainty' in its year end valuation report in line with RICS guidance. We requested the Council repeat the 'material uncertainty' in the statement of accounts. Based on the work we have undertaken we are satisfied that the carrying value of PPE and IP disclosed in the financial statements is materially accurate. We included an emphasis of matter paragraph in our audit report highlighting the Council's disclosure in this area to the reader of the accounts. For clarity, an emphasis of matter paragraph is not a modification of our opinion. It is a paragraph in our report which highlights a disclosure in the financial statements that, in our judgment, is of importance to the users' understanding of the financial statements. Our audit work did not identify any material issues.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Pension liability valuation	The Council's pension liabilities were appropriately disclosed in the accounts. We have considered the IAS19 assurance letter from the auditor of the Pension Fund. This letter noted exceptions related to the Council. Management have deemed this to be immaterial. We note that as it did not have a material impact on the pension liability and reported as un-adjusted audit differences in the representation letter.
Going concern disclosure There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis.	The Council has assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the financial statements. The approach to establishing West Northamptonshire Council's budget and financial position has been to create the baseline budget and balance sheet by disaggregating the County Council and aggregating with the District and Borough Councils. Management have concluded that, despite their demising status, their financial statements should be presented on a going concern basis. We have reviewed the assessment and concluded as appropriate. In concluding the external audits of Northamptonshire Local Government bodies for the financial year ended 31 March 2020, we included an Emphasis of Matter in our audit report to disclose the demise of each of the sovereign Councils and the establishment Unitary Council from the 1st April 2021.
Recognition of grant income associated with Covid-19	Our audit procedures for recognition of grant income did not identify any audit issues.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £756k which is 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council
Reporting threshold	We agreed with the Corporate Governance Committee that we would report to the Committee all audit differences in excess of £38k.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits
- Related party transactions

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

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

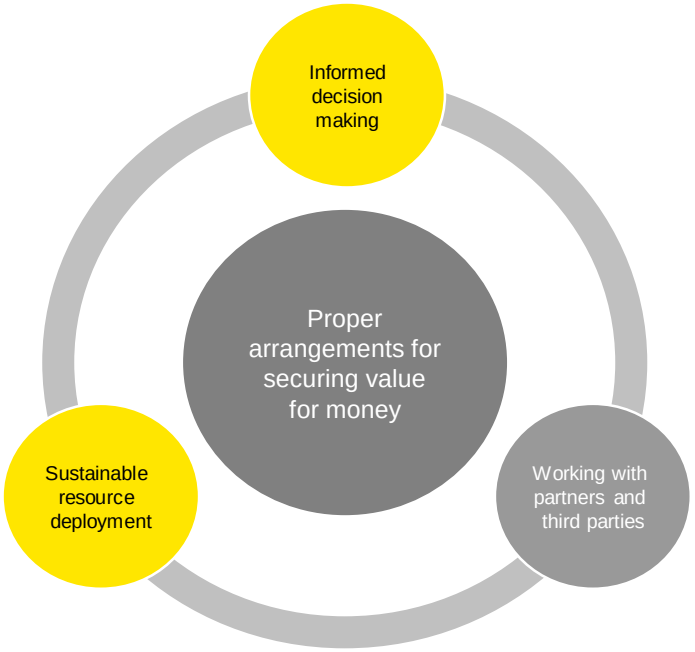
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider local authorities response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We reported in detail as part of the Audit Results Report and do not repeat our findings here.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500m. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Corporate Governance Committee in September 2020. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Corporate Governance Committee.

Section 6

Audit Fees

Audit Fees

Fees

In the Final Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have now quantified the proposed fee. We will shortly discuss the proposed additional fees with the s151 officer after providing supporting details. We will then seek approval from PSAA.

All fees exclude VAT	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Code work fee	37,564	37,564	37,564
Group Accounts and Quality	8,162		3,000
Property valuations significant risk and use of EY Real Estate Specialist	8,872	-	3,500
Additional work on pensions	1,699	-	1,000
Property valuations material uncertainty (Note 1)	2,084	-	N/A
Going concern disclosure (Note 2)	3,472	-	N/A
EY consultations on auditor report (Note 3)	2,019	-	N/A
Total audit	**63,873**	**37,564**	**45,064**
Other non-audit services	N/A	N/A	N/A
Total other non-audit services	**N/A**	**N/A**	**N/A**

Notes:

1. *We have carried out additional work in response to the material uncertainty reported by the Authority's valuer on investment property valuations. This has led to an emphasis of matter paragraph in the audit report. This cost also includes a reassessment of materiality required on all audits as a result of the Covid-19 impact on the business and planning and the impact of remote working.*
2. *We have carried out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure.*
3. *To ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate.*

Please note that our fee analysis above represents proposed variations to the Council's scale fee of £37,564 consistent with changes in audit scope, risk assessments and findings from our audit procedures. The proposed variation set out above is not the same as the exercise we undertook at the planning stage of the audit to reassess what we believe the baseline (or scale) fee should be to deliver sustainable high quality audits and address the professional, regulatory expectations and risk environment we are experiencing. We have discussed with the Council's finance officers (and set out in our audit planning report) that our assessment is that the scale fee should be increased from £37,564 to £74,297. We have provided this information to PSAA who will determine whether there should be any changes to the baseline fee

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ED None

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Northampton Borough Council - External Audit Annual Audit Letter Year Ending 31 March 2019**
Report Author	Debbie Middleton – Interim AD Sovereign Accounts Closure (NCC/NBC/NFRA) – Debbie.Middleton@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	**19.07.2021**
West S151	Martin Henry	**19.07.2021**
Other Director/SME	Audra Statham	**19.07.2021**

List of Appendices

Appendix A – Northampton BC Ernst & Young Annual Audit Letter for the year end 31 March 2019.

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to present to the Committee the Annual Audit Letter for Northampton BC for the 2018/19 year.

2. Executive Summary

2.1 Ernst & Young LLP (EY LLP) was appointed as the external auditor for Northampton Borough Council from the 2018/19 financial year through to the 20/21 financial year. The external auditor is required to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they consider should be brought to the attention of the Council. They reported the detailed findings from their audit work in their 2018/19 Audit Results Report which was present to the 25 March 2021 meeting of the Northampton BC Audit Committee. The Annual Audit Letter is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2018/19 Annual Audit Letter for Northampton Borough Council.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's annual audit letter at appendix A sets out:

- The purpose of the letter
- The responsibilities of the Appointed Auditor and the Council
- Financial statement audit work
- Value for money work
- Other reporting issues
- A focus on the future
- Details of the Audit fees

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

Northampton Borough Council

Annual Audit Letter for the year ended 31 March 2019

July 2021

Building a better working world

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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.psaa.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 Annual Audit Letter is prepared in the context of the Statement of Responsibilities and the Terms of Appointment. 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 Hywel Ball, 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.

Section 1

Executive Summary

Executive Summary

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have not put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest. We do however note that KPMG issued a public interest report in respect of the loan to Northampton Town Football Club, which took place prior to the period under audit, on 27 January 2021.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Whole of Government Accounts (WGA):	
► Reporting to the National Audit Office (NAO) on our review of the Council's WGA return	Due to the delayed timing of our audit, no audit procedures were performed over the Council's WGA return as the NAO issued their opinion on the 2018-19 WGA on 21 July 2020.

Executive Summary (continued)

As a result of the above we have:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 March 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 8 April 2021.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Section 2

Purpose and responsibilities

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report presented to the 25 March 2021 meeting of the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Planning Report that we issued on 24 January 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

We undertake any other work specified by the Code of Audit Practice or Public Sector Audit Appointments Limited (PSAA).

Responsibilities of the Council

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial statement audit

Financial statement audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 8 April 2021.

Our detailed findings were reported to the 25 March 2021 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in International Standard on Auditing (UK) 240 (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 otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. In addition, during the course of our audit we have held discussions with Northamptonshire Police in respect of their ongoing investigation into the football club loan. We have also read the KPMG public interest report, published on 27 January 2021, in respect of the loan. From these sources, we have identified additional factors which we consider to be relevant to the risk of misstatement due to fraud or error and requiring additional audit response.	**What we did:** We tested a sample of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements to ensure they were appropriate. Sample items were identified for testing based upon characteristics which could be indicative of management override. We reviewed accounting estimates for evidence of management bias. We evaluated the business rationale for any significant and/or unusual transactions. We reviewed Council and Cabinet minutes since 2014, along with 2011 political party manifestos, to identify significant commitments made by the Council. Where commitments were identified we reviewed the accounting treatment of balances impacting the 2018/19 accounts and, for commitments commencing during 2018/19, we reviewed the governance processes around approval of those commitments. **Our conclusions:** We did not identify any material weaknesses in controls which indicated material management override. In reaching this conclusion we have considered the cause and effect of material levels of misstatement identified during the course of our audit and whether they indicated deliberate manipulation of the financial statements, and are content that they did not. We did not identify any transactions during our audit which appeared unusual or outside of Northampton Borough Council's normal course of business. We did not identify any matters to report from our review of council's commitments and governance processes in respect of investments approved during 2018/19.

Financial statement audit (continued)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition 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 considered this risk most likely to manifest in the inappropriate classification of revenue expenditure as capital expenditure.	**What we did:** We sample tested additions to property, plant and equipment to ensure 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. We reviewed and tested Revenue Expenditure Funded from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately funded from capital. As part of our journal testing strategy, we reviewed unusual journals related to capital expenditure posted around the year-end, for example where the debit was to capital expenditure and the credit to income and expenditure. **Our conclusions** Our testing has not identified any misstatements arising from fraud in revenue and expenditure recognition, or other matters relating to this risk to bring to your attention.

Financial statement audit (continued)

Significant Risk	Conclusion
Valuation of land and buildings The fair value of property, plant and equipment (PPE), investment properties (IP) and heritage assets represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings, surplus assets and investment properties in particular. The valuation of non-current assets is performed by an external valuer and relies upon significant estimation and assumptions. We focus our work on the appropriateness of the valuer's work and the assumptions used to value non-current assets.	**What we did:** We considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We sample tested key asset information used by the valuer in performing their valuation (for example, floor plans to support valuations based on price per square metre). We considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme, as required by the Council's reporting framework. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer, and reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of a number of higher risk asset valuations. **Our conclusions** We encountered difficulty auditing the valuations of some non-current assets due to the Council being unable to provide the necessary explanations or obtain them from the external valuer who undertook the valuations (Avison Young), who we note ceased to be the Council's external valuer after the 2018/19 cycle. Where these difficulties could not be resolved, management had to seek revised valuations from the Council's current external valuer (Wilks Head and Eve). As we were unable to test the original valuations, differences between the original and revised valuations have been treated as audit differences. Where we were able to complete our testing of asset valuations, we noted a number of issues including valuations based upon incorrect information (e.g. terms of existing tenancies and asset areas) and assets being incorrectly classified, resulting in the wrong valuation methodology being applied. We also challenged management as to whether changes to the capital programme, arising from the local government reorganisation, should result in impairment of assets under construction. A £5.3m impairment was subsequently recognised. In aggregate, we identified gross misstatement of £20.0m with a net impact on the balance sheet of overstating assets by £3.6m. Management have adjusted the financial statements for £19.0m of these misstatements.

Financial statement audit (continued)

Other key findings	Conclusion
Valuation of defined benefit pension liabilities Accounting for the participation in the Local Government Pension Scheme (LGPS) involves significant estimation and judgement, therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed in the financial statements is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	**What we did:** We assessed the work of the Pension Fund actuary, including the assumptions they have used, by relying on the work of PWC as consulting actuaries commissioned by the National Audit Office for all Local Government sector auditors and the review of this work by our own EY actuarial team. We were able to conclude that the work of the actuary was appropriate. We liaised with the auditors of the Northamptonshire Pension Fund to obtain assurance over the information supplied to the actuary in relation to Northampton Borough Council. We reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to defined benefit pensions. **Our conclusions** The initial valuation of the Authority's net pension liability included the valuation of pension assets as at 31 December 2018, adjusted for cash movements between 31 December 2018 and 31 March 2019. The actual valuation of pension assets as at 31 March 2019 materially differed from this assumption, therefore management had the actuary revise their calculations. The revised calculations were prepared prior to, and reflected in, the draft financial statements presented for audit. In addition, the valuation of the Authority's pension liabilities as at 31 March 2019 included the estimated impact of addressing age discrimination within the LGPS highlighted by the McCloud legal case. On 16 July 2020, the Ministry for Housing, Communities and Local Government (MHCLG) published the proposed remedies for removing age discrimination from the LGPS for consultation. On 4 February 2021, MHCLG announced the final proposed remedies. The valuation of scheme liabilities as at 31 March 2019 does not include the impact of the proposed remedies, as they were announced after the valuation was prepared. We have engaged our EY Pensions specialists to help us confirm that the impact of applying the proposed remedies would not be material to the Authority's pension liabilities. We have no other matters to report in respect of this risk.

Financial statement audit (continued)

Other key findings	Conclusion
IFRS 9 Financial Instruments / **IFRS 15 Revenue from contracts with customers** New accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, are effective for 2018/19 and introduce significant changes to the accounting treatment and financial statements disclosures in respect of financial instruments and revenue. Management will need to ensure the financial statements comply with the new standards.	**What we did:** We assessed the authority's implementation of the new accounting standards, including management's assessment of the impacts of the new standards on the Authority's and Group's financial statements. We reviewed the classification and valuation of financial instruments against the requirements of the new standard and reviewed management's determination of expected credit losses, a new approach under IFRS 9 to the recognition of impairments. We considered the applicability of the new revenue standard to the authority's revenue streams, and where the standard applies performed sample testing to ensure that revenue had been recognised in accordance with the new standard. **Our conclusions** The financial instrument disclosures within the draft financial statements presented for audit did not reflect the requirements of the new standard, for example by continuing to use the financial instrument classifications of the previous standard. Management have subsequently revised the financial instrument disclosures to ensure they are consistent with the new standard. In addition, we noted several misstatements within financial instrument balances which were not specifically related to the adoption of the new standard. We have no matters to report in respect of the application of IFRS 15.
Contracts and procurement The Council incurs material annual expenditure under contracts with third parties. A risk of misstatement arises from the risk that these contracts are not appropriately accounted for, including the risk of omission or that amounts are recorded in the incorrect period.	**What we did:** We have obtained and read significant contracts, agreements, and similar documents and considered their accounting or auditing implications. We have analysed the results of our expenditure testing and considered whether this indicates that contract registers may not be complete. We have undertaken sample testing to confirm the correct procurement processes were followed. **Our conclusions** We have no matters to report in respect of contracts and procurements.

Financial statement audit (continued)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality for the Council's financial statements to be £1.9m, which was 1% of the gross expenditure on the provision of services as understood at the time of our audit. The gross expenditure on the provision of services in the final statement of accounts is £234m, following changes to the accounts presentation during the audit. We consider the gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £97k.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for money

Value for Money

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

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

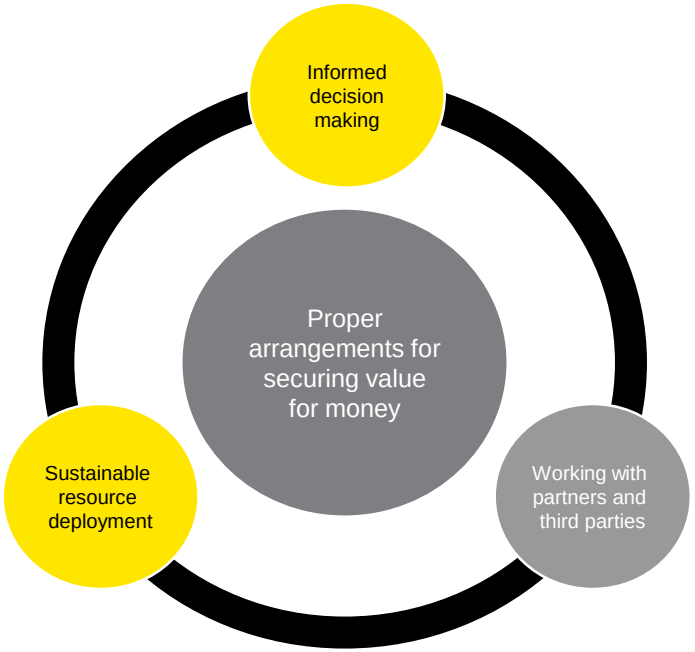
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

We identified three significant risks in relation to these arrangements. The table below presents the findings of our work in response to the risk identified.

We have performed the procedures outlined in our audit plan.

We have the following matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources:

- At 31 March 2018, the Authority had 6 actions from its Governance Action Plan which were not yet implemented. The Governance Action Plan was closed in September 2018 with 2 of these actions noted as outstanding. In addition, the management commentary on a number of completed actions noted that there were further actions required to fully implement the recommendations. We reviewed management updates provided in September 2018 and January 2020 and concluded that 4 of the 6 actions outstanding at 31 March 2018 remained at least partially outstanding at 31 March 2019. We were therefore unable to conclude that the Governance Action Plan was fully implemented and embedded during 2018/19, and were therefore unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result, we issued an adverse value for money opinion.



Value for Money (continued)

Significant Risk	Conclusion
Governance Action Plan The Council has a Governance Action Plan that was established in December 2016. The predecessor auditor reported that while good progress had been made, as of 31 March 2018 the plan had not been fully implemented in that year. This resulted in an adverse value for money conclusion.	At 31 March 2018, the Council had implemented 42 of the 48 actions included within the Governance Action Plan and considered 5 of the remaining 6 actions to have been partially implemented. The six actions which had not been fully implemented prior to 2018/19 were all deemed to be high priority and included the establishment of a due diligence manual, delivery of the 'Licence to Practice Organisational Development and Training Plan' and delivery of a mandatory training programme on project programmes and major project competencies. Following new appointments to several senior posts within the Council during the first half of 2018, management undertook a review of the remaining elements of the Governance Action Plan and determined that aspects of the Governance Action Plan established in December 2016 no longer reflected the needs of the Council in 2018/19. Management has continued during 2018/19 to build on the progress made against the Governance Action Plan in prior years, and formally closed the Governance Action Plan in September 2018. We do however note that there are significant elements of the plan which have not been implemented, most notably the development of a due diligence manual and the 'Licence to Practice Organisational Development and Training Plan'. Whilst management has taken steps towards the overall objectives of these elements of the plan, the more informal nature of these steps mean they are not reflected in the formal policies and procedures of the Council and we are therefore unable to conclude these actions are fully embedded in the organisation. We are therefore unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result, we issued an adverse value for money opinion.

Value for Money (continued)

Significant Risk	Conclusion
Football club loan In 2013/14, the Council advanced a £10.25m loan to Northampton Town Football Club, which has not been repaid nor the proceeds recovered. The predecessor auditor identified a lack of a formalised system for documenting the due diligence process for loans, and that the accountability and decision making process was not sufficiently robust. A Public Interest Report on this matter was issued by the predecessor auditor in January 2021. In the 2017/18 ISA 260 report, the predecessor auditor concluded that the actions agreed to address these issues had not been fully implemented as at 31 March 2018. This resulted in an adverse value for money conclusion. The Council has expended significant resources to date to recover monies.	In addition to the loan to Northampton Town Football Club, the Authority has previously loaned £5.5 million to Northampton Rugby Football Club ('the rugby club') in 2014. During 2018/19, the Authority held further discussions with the rugby club over loaning an additional £1.5 million to the club. At the time of considering this proposal, the Authority had not yet implemented its new 'loans checklist' and the due diligence and compliance manual is also still to be completed. There was not therefore a formally defined process for the Authority to follow in assessing the proposal to loan additional amounts to the rugby club. Nevertheless, we have reviewed the process which was followed by the Authority in assessing the proposed loan. The Authority performed a two-stage review of the proposal, an internal assessment by the Authority's Governance and Risk Manager and an external review by Link Asset Management. The external review included consideration of factors identified in the KPMG Public Interest Report as not sufficiently considered in the assessment of the football club loan, including consideration of the financial position and performance of the rugby club, the future cashflow forecasts of the rugby club and compliance with EU state aid regulations. Cabinet approved the loan to the rugby club in February 2019, subject to a number of risks identified by the Authority's review processes being adequately addressed. The rugby club withdrew their request for the loan prior to these points being addressed, therefore we are unable to assess whether these points would have been satisfactorily addressed prior to monies being paid to the rugby club. Up to the point of the loan request being withdrawn, the processes followed by the Authority appear reasonable. The absence of a formally defined process does however increase the risk that future processes may be inconsistent or insufficiently documented. As of March 2019, the Authority had spent £1.6 million on efforts to recover the football club loan, including £662,000 during 2018/19. The majority of these costs relate to legal fees. The legal advice received by the Authority includes advice on the identity of parties from whom recovery could be sought, the quantum of amounts which could be recovered and the probability of successful recovery of monies. As of January 2021, the Authority has recovered £132,000 and expects to realise a further £645,000 from property sales during 2021. Both Deloitte and FRP Insolvency are working with the Authority to recover additional amounts on a contingent fee basis (i.e. no cost to the Authority if no recovery is made). Based on the above factors, specifically the outstanding actions to implement a due diligence and compliance manual and completion of relevant modules of the Licence to Practice Organisational Development and Training Plan, we were unable to conclude that the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We do however note the overlap of this conclusion with our conclusion against the previous risk.

Value for Money (continued)

Significant Risk	Conclusion
Financial resilience The local government sector is facing financial challenges. For 2018/19, the Council set a net budget of £28.490 million. This included £1.8 million of savings and efficiencies, incorporating £320,000 from organisation redesign; £1.36 million of increased income and £142,000 of service reductions. The outturn report shows an overspend of £732,000 against budget. Over the medium term, the net budget requirement increases from £27.438 million in 2019/20 to £28.897 million in 2022/23. The Council has identified a savings requirement of £10.8 million over this period. The medium term financial strategy includes assumptions on the level of business rates income and new homes bonus, which will need to be reviewed regularly to ensure they are supportable and any changes reflected in the MTFP. The MTFP also includes use of reserves over the medium term of £4.5 million. The Council does hold £25 million of general reserves to mitigate against specific and general risks faced by the Council.	We have reviewed the financial outturn of the Authority against budget and note that the Authority's revenue activities were delivered with an overspend of £732,000 (2.4%). The main driver of this overspend was higher than anticipated homelessness costs, which are not wholly within management's control. The overspend was partially offset by management achieving savings of £2.48 million against budgeted savings of £1.82 million. The forecast overspend position was reported to senior management and members regularly throughout 2018/19. We have made enquiries of management and reviewed the assumptions used in the 2019-2022 Medium Term Financial Plan (MTFP). We note that management allowed for an additional £1 million spend on homelessness services, compared to the 2018-19 budget, to allow for the overspend in this area during 2018/19. Included within management's budget for 2019/20 were required savings of £1.134 million. We consider this level of savings to have been an achievable level of savings, given the Authority exceeded both this level and the targeted level of savings during 2018/19. Savings prior to 2018/19 were minimal in the Authority's budget, therefore only 2018/19 provides evidence of management's ability to realise planned savings. Overall we are satisfied that the Authority had proper arrangements in place during 2018/19 to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, with regards to management of its financial position and the setting of budgets.

Section 5

Other reporting issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. Due to the delayed timing of our audit, no audit procedures were performed over the Council's WGA return as the NAO issued their opinion on the 2018-19 WGA on 21 July 2020.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

We do however note that KPMG issued a public interest report in respect of the loan to Northampton Town Football Club, which took place prior to the period under audit, on 27 January 2021.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 25 March 2021. 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 regulatory and professional requirements.

Other Reporting Issues (continued)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

Due to the demise of the Authority on 31 March 2021, we have not raised formal recommendations in respect of our control observations however we wish to highlight the following matters which may be of interest to management of the new unitary authority:

- We noted a number of issues with the valuation of non-current assets. A number of these issues could be traced to inaccuracies in the information used by the Council's external valuers to prepare the valuations of assets. We would therefore encourage management of the new authority to consider the controls in place within the new Authority to ensure that information provided to external valuers is accurate, and hence that the valuations received are appropriate.
- We noted errors in the disclosure of future minimum lease commitments which occurred as a result of the Council's finance function not being informed where changes were agreed to the terms of the Council's lease agreements. From 2022/23, the new Authority will be required to adopt a new accounting standard, IFRS 16: Leases, which will require recognition of the Council's material operating lease commitments on the balance sheet. Controls to ensure the completeness and accuracy of lease information will be key to successful implementation of the new standard.
- We observed a minor control deficiency in respect of the basis of recharges from the General Fund to the Housing Revenue Account, for services such as legal and ground maintenance. These recharges, which total £1.88 million, are determined on a percentage of total cost basis, however the percentages used have been in place for a number of years and management were unable to provide support that they remain appropriate. We understand that a review of the basis of recharges to the HRA is already planned for the new Authority.
- During our testing of Council Tax write-offs we were unable to obtain evidence of the rationale for a sample of write-offs or evidence that the write-off was appropriately approved. We understand that management were unable to provide this evidence as these records are retained in individuals' e-mail records, and the relevant individuals are no longer employed by the Council. There is a risk that management are unable to demonstrate write-offs of Council Tax debt are appropriate if records are not formally retained by the Council.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council's successor authority is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	Originally intended to be applicable for local authority accounts from the 2020/21 financial year, the adoption of the new standard has been deferred to avoid placing additional pressure on local authority finance teams during the Covid-19 pandemic. It is current proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year. The main impact of the new standard is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset recognised on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals recognised as expenditure in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. For local authorities who lease a large number of assets the new standard will have a significant impact, with the majority of current leases likely to be included on the balance sheet. There are transitional arrangements within the standard and although the 2022/23 Accounting Code of Practice for Local Authorities will not be issued for some time yet, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2022/23 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the new unitary authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The authority must therefore ensure that all lease arrangements are fully documented.

Section 7

Audit fees

Audit Fees

Our fee for 2018/19 is set out in the table below and is in-line with the amounts communicated in our Audit Planning Report and Audit Results Reports:

Description	Final Planned Fee 2018/19 £	Planned Fee 2018/19 £
Base Audit Fee – Code Work [note 1]	62,197	62,197
Changes in work required to address professional and regulatory requirements and scope associated with risk [notes 2, 4]	93,346	-
Revised Proposed Scale Fee	**155,543**	**62,197**
Additional specific one-off considerations requiring additional work (Council) [notes 3,4]	261,457	-
Total Audit Fee	**417,000**	**62,197**

We confirm we have not undertaken any non-audit work.

Notes:

1) The base audit fee reflects the amount determined by Public Sector Audit Appointments Limited (PSAA).

2) We wrote to management and the Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice, are all shaping the future of local audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors. In continuing to respond to these factors we are required to seek higher levels of corroborative evidence, including increasing sample sizes and engage with our internal specialists more extensively and on a wider array of matters. Additionally, we need to continue to increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality. To support the increasing regulatory focus, we have to continue to invest in our audit quality infrastructure; for example our compliance costs have doubled over the past five years. A more detailed break down of this amount was provided in our Audit Results Report.

3) Where we have identified significant risks and other areas of audit focus, as summarised in this report, we have undertaken additional procedures to obtain the appropriate levels of evidence to support our opinion. This work is over and above that assumed in the scale fee.

4) We have held discussions with management in respect of our audit fees but have not been able to reach agreement on the additional fee amounts. We will therefore submit our proposals to Public Sector Audit Appointments (PSAA) and ask them to make a determination as to the additional fee to be charged. As this process was not completed prior to the dissolution of the Authority at the end of March 2021, we will provide an update on these discussions to the Audit Committee of the new West Northamptonshire unitary authority.

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ED None

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Northamptonshire County Council and Pension Fund - External Audit Annual Audit Letter Year Ending 31 March 2019**
Report Author	Debbie Middleton – Interim AD Sovereign Accounts Closure (NCC/NBC/NFRA) – Debbie.Middleton@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	19.07.2021
West S151	Martin Henry	19.07.2021
Other Director/SME	Audra Statham	19.07.2021

List of Appendices

Appendix A – Northamptonshire CC and Pension Fund Ernst & Young Annual Audit Letter for the year end 31 March 2019.

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to present to the Committee the Annual Audit Letter for Northamptonshire CC and Pension Fund for the 2018/19 year.

2. Executive Summary

2.1 Ernst & Young LLP (EY LLP) was appointed as the external auditor for Northamptonshire County Council and the Pension Fund from the 2018/19 financial year through to the 20/21 financial year. The external auditor is required to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they consider should be brought to the attention of the Council. They reported the detailed findings from their audit work in their 2018/19 Audit Results Reports which were presented to the 25 June 2020 meeting of the Northamptonshire CC Audit Committee for the Pension Fund and to the 30 March 2021 meeting of the same Committee for the County Council. The Annual Audit Letter is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2018/19 Annual Audit Letter for Northamptonshire County Council and Pension Fund.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's audit planning report at appendix A sets out:

- The purpose of the letter
- The responsibilities of the Appointed Auditor and the Council
- Financial statement audit work
- Value for Money work
- Other reporting issues
- A focus on the future
- Details of the Audit fees

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

Northamptonshire County Council and Pension Fund

Annual Audit Letter for the year ended 31 March 2019

July 2021

Building a better working world

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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.psaa.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 Hywel Ball, 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

We are required to issue an annual audit letter to Northamptonshire County Council following completion of our audit procedures for the year ended 31 March 2019. This Annual Audit Letter covers the audit of Northamptonshire County Council and Northamptonshire Pension Fund.

The findings reported are relevant to our work on the 2018/19 Statement of Accounts and conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in 2018/19. The findings do not reflect changes made by the Council in 2019/20 and 2020/21.

We are reporting to the Audit Committee of the successor body, West Northamptonshire Council.

Below are the results and conclusions on the significant areas of the audit process for the year ended 31 March 2019.

Area of Work	Conclusion
Opinion on the Council and Pension Fund: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2019 and of its expenditure and income for the year then ended. We issued our audit report on the Council and Pension Fund accounts on 31 March 2021.
► Consistency of other information published with the financial statements	Other information published with the Statement of Accounts was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	The Council was proactive in addressing a number of previously identified weaknesses throughout the 2018/19 financial year. However, during the year to 31 March 2019, weaknesses in arrangements were still evident in relation to financial resilience, Ofsted findings in relation to the areas for improvement identified in Children's Services, CQC findings in relation to areas for improvement in Health and Social Care, and risk management. Based on the work we performed, we issued a qualified value for money conclusion, reflecting weaknesses present in the Council's arrangements during 2018/19.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 30 March 2021 for Northamptonshire County Council. The Audit Results Report for the Pension Fund was prepared in March 2020 and presented to the Audit Committee meeting on 25 June 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 March 2021.

We would like to take this opportunity to thank the Council and Pension Fund staff for their assistance during the course of our work.

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Northamptonshire County Council

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

Northamptonshire Pension Fund

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council and Pension Fund.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Reports. These were presented to the 30 March 2021 Audit Committee for the County Council and 25 June 2020 Audit Committee for the Pension Fund. The Audit Committee represents those charged with governance for both the Council and Pension Fund. We do not repeat those detailed findings in this Letter. The matters reported here are the most significant for the Council and Pension Fund.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plans that we presented to the Northamptonshire County Council Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements, including the pension fund; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the Annual Governance Statement is misleading or not consistent with our understanding of the Council and Pension Fund;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Due to the timing of the audit, we were not required to review and report to the National Audit Office (NAO) on the Council's Whole of Government Accounts return.

Responsibilities of the Council and Pension Fund

The Council and Pension Fund are responsible for preparing and publishing statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council and Pension Fund report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Fraud risk

Risk of fraud in revenue and expenditure recognition - incorrect capitalisation of revenue expenditure

Significant Risk

What is the risk?

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.

A key way to improve the revenue position is through the inappropriate capitalisation of revenue expenditure.

The Council has a significant fixed asset base (£1,135 million net book value at 31 March 2019) and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect capitalisation of revenue expenditure:

- For significant additions, we have examined invoices, capital expenditure authorisations, leases and other data that support these additions. We have reviewed the items selected against the definition of capital expenditure in IAS 16.
- We have extended our testing of items capitalised in the year by lowering our testing threshold. We have also reviewed a larger random sample of capital additions below our testing threshold.
- As part of our journal testing strategy, we have used our analytics data to identify unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure/capital additions and the credit to expenditure. We reviewed these journals to ensure they are appropriate.

What are our conclusions?

Our testing has not identified any material misstatements with respect to incorrect capitalisation of revenue expenditure.

We did however identified amendments required to improve the disclosure and presentation of reclassifications and additions within the Property, Plant and Equipment note of the Financial Statements. The largest such item related to the draft statements incorrectly showing all capital additions as a reclassification from Assets under Construction.

Fraud risk

Risk of fraud in revenue and expenditure recognition - Incorrect classification of revenue expenditure funded by capital under statute

Significant Risk

What is the risk?

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.

By incorrectly classifying expenditure as REFCUS, the Council could improve the reported revenue position.

The REFCUS total was £34.3 million in 2018-19 and £59.9 million in 2017-18.

What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect classification of expenditure as revenue expenditure funded by capital under statute (REFCUS):

- Test a sample of REFCUS items at a lower testing threshold to verify that they have been appropriately classified as REFCUS.

What are our conclusions?

Our testing has not identified any material misstatements with respect to expenditure classified as REFCUS.

Our testing of debit entries identified items that had been posted into 2018/19 but related to the prior year. The total of these items is £289,000. These items do not impact on the Council's reserves position. Our cut-off testing described elsewhere in this report has not identified any items that would suggest that similar issues have occurred in applying the correct cut-off between 2018/19 and 2019/20.

We identified £1.5 million of expenditure incorrectly disclosed as REFCUS that did not meet the appropriate criteria but did meet the definition of capital. As such, this expenditure should have been capitalised and not charged to revenue and there is therefore no impact on the Council's reserves position. We are therefore satisfied that the errors identified do not indicate fraud in expenditure recognition.

Fraud risk

Risk of fraud in revenue and expenditure recognition - Incorrect application of cut-off

Significant Risk

What is the risk?

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

We have assessed that an area open to a greater risk of manipulation is in the inappropriate application of cut-off such that expenditure related to the 2018/19 financial year is recorded in 2019/20.

We have also identified a risk relating to the deferral of expenditure accruals and overstatement of year end debtor balances to again improve the reported 2018/19 outturn. We have identified that the manipulation of year end debtor and creditor balances as the most likely means to impact the reported income and expenditure positions, rather than in year income and expenditure postings.

What did we do?

We have taken a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect application of cut-off:

- Extended our cut-off procedures to ensure items of expenditure are recorded in the correct year;
- Tested year-end debtors and creditors at a lower testing threshold to verify they have been recorded at the appropriate amount and in the correct year; and
- Extended our testing of unrecorded liabilities to the end of September, which was the month in which we received the draft financial statements.

What are our conclusions?

Our work on the cut-off of creditors (which also addresses our risk of expenditure cut off) comprised reviewing all items, one month either side of the year-end in excess of our testing threshold of £270,000. We extended our testing by reviewing schedules of payments for an additional five months with an increasing threshold the further away from the reporting date the transactions have been recorded.

Our testing of unrecorded liabilities has not identified any liabilities which have been omitted from the 2018/19 financial statements.

Our work on testing debtors one month either side of the 2018/19 year end has not identified any significant issues.

Our work has been completed with no material exceptions identified.

Fraud 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.

What did we do?

We have performed mandatory procedures to address the general risk of fraud, regardless of specifically identified fraud risks. These included:

- Identifying fraud risks during the planning stages;
- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud.

In addition we performed mandated procedures to address this risk, including:

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

As part of this work, we reviewed the Council's proposal for the release of Section 38 and Section 278 grants being held in receipts in advance to revenue, as an unusual transaction.

What are our conclusions?

Our testing of journals has identified weaknesses in the control environment which have been outlined in Section 05. These generally relate to difficulties in obtaining information to support journals. We have not identified any inappropriate journals within this testing that suggest the risk of management override of controls has been realised.

Our testing of other material estimates such as the pensions liability and land and building and investment property valuations and have not identified any issues with these estimates.

Other than where outlined elsewhere in this report, we have not identified any significant unusual transactions. Our work to gain assurance on the valuation and accounting treatment of One Angel Square has been set out on page 15.

Overall, our work has not identified any instances where the controls in place have been circumvented or otherwise overridden by management.

Significant risk

Implementation of new enterprise resource planning system (ERP Gold)

What is the risk?

ERP Gold was implemented by LGSS for the Council and went live in April 2018. The system supports financial and HR processes for the Council.

It is crucial that the implementation of a new system that supports business critical systems is adequately managed and incorporates key controls and considerations relating to the financial statements reporting process. We therefore identified this as a significant risk as part of our early planning procedure. We have undertaken audit procedures to address this risk and have verified the completeness and accuracy of the migration. Therefore the significant risk has been adequately addressed. We are however reporting the initial risk identified in this Plan for completeness.

What did we do?

We undertook a review of data migration, focused on:

- Data migration strategy, plan and approach
- Data profiling cleansing approach
- Data validation and reconciliation.

We engaged our advisory team to support the engagement team with this work.

As part of the approach, the advisory team verified the journey of data from source to target via the Extract, Transform and Load (ETL) process with a view to provide confidence on the completeness and accuracy of the data migration.

We have completed this review and have verified the completeness and accuracy of the migration. We have provided a separate report with recommendations for the Council for future migrations.

Therefore the significant risk has been adequately addressed.

What are our conclusions?

We have completed this review and have verified the completeness and accuracy of the migration.

We have no significant issues to report but have provided a separate report for management with recommendations for the Council for any future migrations.

Significant risk

Valuation of property, plant and equipment, including investment property

What is the risk?

The fair value of land and buildings represent significant balances (£1,135 million net book value at 31 March 2019) in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We linked this risk to other land and buildings due to the range of valuation bases and assumptions included within that balance, and to investment properties.

What did we do?

To address this risk, we have:

- Evaluated the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- Checked the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted;
- Adjusted the nature, timing and extent of our audit procedures and increased our sample sizes.

We have taken a substantive approach to respond to this significant risk, undertaking the following procedures related to the valuation of land and building, including investment properties. As part of our work we have:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information and assumptions used by the valuers in performing their valuation;
- Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Considered any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

We have also engaged EY valuation specialists to assist the audit team to review a sample of asset valuations.

What are our conclusions?

We identified one school asset which, due to unusual circumstances, had been omitted from the Asset Register and Financial Statements. This resulted in an adjustment to the current year of £10.9 million with an adjustment relating to prior year of £9.2 million.

Our valuation specialist performed procedures that led to an updated valuation being requested for one asset. The adjustment that arose as a result of this work is £5.5 million. Our specialist has concluded that the other assets they reviewed had values within an acceptable range and have raised no other issues to report.

We identified valuations requiring adjustments with a gross impact of £1.26 million. This amount includes increases and decreases in Net Book Value and is split across 6 assets; the differences have arisen where we identified discrepancies in underlying support for inputs such as external areas and cost per square metre. Management have made the agreed adjustments for these differences.

Our work reviewing the presentation and disclosure of the PPE note identified some areas where disclosure could be improved; management has amended for these items.

Significant risk

Valuation and accounting treatment of One Angel Square

What is the risk?

The Council completed the construction of a new purpose built headquarters building in the centre of Northampton in 2017. It completed a sale and leaseback of this asset on 18 April 2018, the receipt from which is classified as a capital receipt.

The excess of the sale amount over the carrying amount of the asset is deferred and released as revenue over the life of the lease.

We have identified two risks to address as part of our audit:

- The valuation of One Angel Square is not supportable and therefore the amount deferred is materially misstated; and
- The accounting treatment of the sale and leaseback is not appropriately applied.

What did we do?

We have:

- Engaged our internal valuation specialists to assess the reasonableness of the valuation, including:
  - Understanding the scope of the work performed by management's specialist;
  - Evaluating the qualifications, experience and independence of the specialist;
  - Evaluating the reasonableness of the methodology applied in the valuation;
  - Testing significant assumptions; and
  - Evaluating the overall reasonableness of the valuation

- Engaged our technical specialists to review the accounting treatment for the sale and leaseback arrangement.

Our findings are set out on the following pages.

Financial Statement Audit (cont'd) – Northamptonshire County Council

Valuation and accounting treatment of One Angel Square - What are our conclusions?

In the draft financial statements, the Council's accounting treatment for One Angel Square was to:

- Revalue the asset prior to disposal from £37 million to £47 million. The Council instructed their valuation expert to undertake the valuation based upon depreciated replacement cost (DRC), this was a change in valuation basis from the previous valuation of the asset based on existing use value (EUV).
- Recognise a sale and leaseback of the land and building, resulting in a sale and single operating lease including the land and building and including operating lease payments in Note 25 Leases.
- Recognise the disposal of the asset on completion of the sale, writing out the net book value from the balance sheet and associated balances in the revaluation reserve.
- Immediately recognise a capital receipt of £47 million from the total sale for £64 million (equal to the asset value on balance sheet) and deferred income of £16.632 million to be released over the term of the leaseback (the difference between the excess capital receipt and the carrying value on disposal of the asset).

We considered and documented the audit assurance on the brought forward value of the asset at 1 April 2018 of £37 million:

- Three professional valuers were engaged by the Council to re-assess the valuation of One Angel Square prior to sale. This resulted in three different valuations (all on EUV basis). The valuations ranged between £29 million and £42 million.
- We engaged our own valuation experts to review the valuation on an EUV basis. Our valuers provided a range of between £27 million and £35 million on this basis.
- The different values demonstrate the level of estimation in the valuations, and specifically concerning assumptions on rentals, void rates and associated costs required to adapt a building designed for single occupation.
- We concluded that the brought forward valuation of £37 million included in the financial statements is not materially misstated, but will report an unadjusted error as the value is outside of the range provided by our specialists (overvalued by £2 million when compared to the top of our range).

We assessed the reasonableness of the revaluation prior to sale, including the change in valuation basis:

- The Council engaged an expert to revalue One Angel Square on a depreciated replacement cost (DRC) basis prior to sale. As a result, the asset was revalued to £47 million.
- The revaluation was reviewed by our experts who concluded the value was supportable.
- Our valuation experts concluded the adoption of either an EUV or DRC methodology to value the asset was supportable as UK Valuation Standards are principles based not prescriptive.
- The audit team and our valuation experts challenged the change in valuation basis and concluded the adoption of DRC methodology to value the asset was more appropriate, recognising that there is limited market evidence to demonstrate a demand for a building such as this asset, particularly in the town centre location.

Financial Statement Audit (cont'd) – Northamptonshire County Council

Valuation and accounting treatment of One Angel Square - What are our conclusions?

Using a Government and Public Sector technical specialist, we reviewed the accounting treatment of the sale and leaseback with reference to the Code of Practice on Local Authority Accounting (the Code):

- We concluded the building at One Angel Square should be treated as a finance lease as opposed to an operating lease and included on the Council's balance sheet, with the recognition of a non-current asset and corresponding non-current liability.
- The subsequent lease payments need to be split between a finance charge and repayment of the liability.
- The sale results in a capital receipt equivalent to the carrying value of the asset (£47 million) with difference to the "fair value" of £16.6 million being classed as a deferred capital receipt to be released over the life of the lease.

The changes to the accounting transactions and disclosures required to the draft financial statements are summarised below and set out in the audit differences section:

- The accounting transactions in the financial statements need to be updated to recognise the non-current asset, non-current liability, and corresponding lease payments in the comprehensive income and expenditure statement.
- The original treatment as an operating lease need to be amended to correctly reflect a finance lease. The original recognition as an operating lease resulted in revaluation reserve balances associated with the asset being written out on disposal. As per the Code, this is not the correct treatment for assets subject to sale and leaseback. The value therefore needs to be written back into the Revaluation Reserve.
- The nature of the transaction, along with the key accounting judgement made to change to valuation basis (EUV to DRC) should be disclosed in the Financial Statements.
- The One Angel Square transactions need to be removed from the operating leases note and the finance leases note updated to include the associated finance lease payments and the liability.

Other risk

Going concern assessment and disclosures

What is the risk?

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

What did we do?

We note the 2017/18 audit report issued in November 2019, concluded there was no material uncertainty in relation to the Council's ability to continue as a going concern. The financial position for 2018/19 however remains challenging and the Council will cease to exist on 31 March 2021 when the two new Unitary Councils are formed. In addition, the unprecedented nature of Covid-19, has impacted on the funding of public sector entities and there is uncertainty over the form and extent of future government support.

Taking into account these issues, our review of the Council's going concern assessment and disclosure for 2018/19 included obtaining documented and detailed consideration to support management's assertion regarding the going concern basis, particularly with a view to whether there are any material uncertainties for disclosure. We also considered the specific circumstances in Northamptonshire in terms of the impact of local government reorganisation. Finally, we assessed the Council's consideration and disclosure of the impact of Covid-19 on the future financial position.

We reviewed the Council's going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We considered whether the Council included necessary disclosures regarding any material uncertainties that do exist.

We considered whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these include consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting;
- Sensitivities and stress testing;
- Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias; and
- Continuation of services post local government reorganisation.

Financial Statement Audit (cont'd) – Northamptonshire County Council

Going concern assessment and disclosures - What are our conclusions?

The Going concern assessment needs to cover a period of 12 months from the date of our audit report and will therefore need to cover the period to March 2022.

The fact that the Council will no longer exist at this date, as this is after the establishment of the two new unitary councils in April 2021, adds an additional complexity to this assessment and the disclosures the Council will need to make in its financial statements. Our work has two elements:

Assessment of Northamptonshire County Council to 31 March 2021

Our review of the Council's liquidity and cash flow modelling does not indicate any cash flow shortages or the need for additional borrowing to 31 March 2021.

Assessment of the two new unitary councils covering a period of at least 12 months from the date of our audit report

With reference to the Financial Reporting Council's Practice Note 10, we have considered the decision in the Statement by the Secretary of State in May 2019 to create two new Unitary Councils. As that decision impacts the Council's continued operational existence, we were required to establish whether the Council's operational activities are likely to be transferred elsewhere in the public sector.

We conclude that the UK Parliament has enacted plans that do impact on the continued operational existence of the sovereign Northamptonshire Councils beyond 31 March 2021, but that their activities will transfer to the two Unitary Councils. Therefore, the going concern basis of preparation of financial statements for each sovereign Council for the period up to 31 March 2021 remains appropriate.

We have completed a single piece of work across Northamptonshire that considers whether service provision can continue at similar levels after the 1st April 2021 and for the period of the going concern assessment. This considered the existing and available business plans and budgets for each new unitary council, and how forecast net expenditure can be met by cashflows and available to use reserves.

This work also considered whether the Council have appropriately disclosed this position and how this informs any modifications to our audit report.

Our findings are set out on the following page.

Financial Statement Audit (cont'd) – Northamptonshire County Council

Going concern assessment and disclosures - What are our conclusions?

West Northamptonshire Unitary Council (WNUC) and North Northamptonshire Unitary Council (NNUC) have set balanced budgets for financial year 2021/22 and have forecast usable reserves to be £85 million and £98 million respectively at the end of the 2021/22 financial year. Management have used 'incremental budgeting' to develop the 2021/22 budget, with the starting point being the combined 2020/21 budgeted position of the Councils being replaced. Management have then adjusted the budget for known costs and savings.

We have reviewed management's assessment and concluded that there is no material uncertainty in the Unitary Councils being able to continue with the provision of service. Our conclusion is based on the following key factors:

- Starting budget – We have agreed the starting position to the combined 2020/21 budgets of the Councils being replaced. We have reviewed the in-year budget monitoring for each individual Council and noted that, excluding Covid-19, each body is set to achieve their budgeted position. Management have included Covid-19 related costs and lost income in the incremental changes to the 2021/22 budget.
- 2021/22 incremental costs – management have assumed total in year incremental costs of £27 million (WNUC) £45 million (NNUC). The most significant incremental cost relates to Covid-19 lost income and additional expenditure which management have forecast before the receipt of any additional Covid-19 government support. We have compared this figure to the total Covid-19 cost in 2020/21 for the Councils being replaced, which indicates the assumption is reasonable.
- 2021/22 saving assumptions – management has assumed total in year savings of £13 million (WNUC) and £19 million (NNUC). These saving assumptions are not significant in the context of the overall budget and we have therefore not reviewed them in detail. We have however removed all forecasted savings in our 'plausible downside' scenario referenced below.
- 2021/22 funding – the key funding sources for the Councils are business rates, council tax, and government grants. We have confirmed business rates and council tax are in line with the amounts collected by the individual bodies in previous years. For government grants we have agreed all significant assumed grants to third party support. We also note that due to the timing of the budget setting it does not include additional Covid-19 central government support in 2021/22.
- Plausible downside – We have performed our own plausible downside. In this scenario, we have assumed the impact of Covid-19 in 2021/22 is the same as the impact in 2020/21. We have also removed all assumed savings from the budget.
- Reverse stress test – we have also performed a reverse stress test. This shows income would need to fall, or expenditure increase, by 11.9% (WNUC) and 16.1% (NNUC) for usable reserves to drop to nil.

We have agreed a revised going concern disclosure for the financial statements covering the basis of preparation, how the financial baseline was established for the unitary councils, the 2021/22 budgets and medium-term financial plans, and the key risks and uncertainties.

We included an Emphasis of Matter paragraph in our Audit Report to draw attention to the disclosures made by the council regarding the local government reorganisation.

Other risk

Valuation of pension liability

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- Liaised with the auditors of the pension fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Considered the variation in the valuation of pension fund assets used in the Council's actuarial valuation to the actual year-end asset valuation in order to determine whether the estimate was materially correct, this involved requesting a new accounting results report from the scheme actuary; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We also paid particular attention to the disclosures and considerations made by the actuary in relation to the emerging response to the McCloud and GMP judgements which have an impact on the overall scheme liabilities shared out to the participating bodies.

What are our conclusions?

- The Council's expert prepared a revised IAS 19 report to include an approximate allowance for the McCloud judgement and GMP indexation. This created a revised charge to past service costs that increase from £482,000 to £6,135,000. The overall liability on the balance sheet increased to £1,712 million.
- Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.
- The Northamptonshire Pension Fund auditors have reported a difference between the asset values used in the IAS19 report and actual year end asset values of £1.6 million. The difference is reported as an unadjusted difference in section 04 of the report. There were no other areas of concern over the information supplied to the actuary.
- Accounting entries and disclosures are informed by the actuary's IAS19 report, and in accordance with the Local Authority Accounting Code of Practice.
- As an estimate has been calculated and included in the IAS19 report for McCloud and GMP indexation, the contingent liability note was amended with the McCloud/ GMP paragraphs added to the defined benefits note in the accounts setting out the background, impact and uncertainty concerning the two elements.
- No other issues have been identified.

Other risk

Recognition and application of grant income

What is the risk?

The predecessor auditor reported issues related to the recognition and application of grant income. The Council has reviewed its policies in relation to certain grant income streams in 2018/19. There is a risk that grant monies are incorrectly recognised or applied, leading to non-compliance and with grant conditions and the potential for the Council to have to repay the grant funding.

The total amount of income received from non-specific and service specific grants in the year is £456.4 million (£470.8 million in 2017/18)

What did we do?

We performed procedures that:

- Identified the Council's grant income streams and performed sample testing of these to ensure correct recognition and application in accordance with grant conditions.
- Assessed the Council's policy for recognition and application for material grant income, including consideration of the areas highlighted by KMPG in 2017/18.

What are our conclusions?

We have focused on the judgements management has made in establishing how and when to recognise or apply grant income. Our work has been concluded in this area and we have not identified any instances of inappropriate recognition or application of grant income.

We have noted one finding in relation to the application of the PE Sports Grant, which did not have a material impact on our conclusion in this area.

Other risk

Minimum Revenue Provision (MRP)

What is the risk?

The minimum revenue provision is the minimum amount that must be set aside by the Council each year to pay for capital expenditure financed through borrowing. The Council changed their approach to MRP effective in 2017/18, but with significant impact in ongoing years. The Council engaged external treasury management specialists, Link Asset Services, to review its provision. This is a complex calculation and any errors in the calculation can impact on the level of Council's useable reserves or may mean that the provision calculated is not considered prudent as required by statutory guidance.

What did we do?

- Reviewed and commented on the options for changes in the MRP policy proposed by Link Asset Services in their report to the Council in March 2018
- Reviewed the Council's revised MRP policy as approved by Full Council in March 2018 for compliance with statutory guidance
- Confirmed, based on the revised MRP policy, the existence of a material overprovision of MRP as at 31 March 2017.
- Recalculated the Council's capital financing requirement (CFR) as at 31 March 2018 and 31 March 2019 based on its balance sheet position at those dates.
- Confirmed the appropriateness of the MRP charge for 2018/19

What are our conclusions?

A Council's CFR is an important calculation as it identifies the level of capital expenditure which is yet to be financed and therefore what needs to be financed either from MRP charges to the general fund or from other sources.

We identified a number of issues from our review of the CFR and MRP calculations. Detailed findings are set out on the next two slides, but the main issues are summarised below:

- There was a £6.6 million discrepancy between the CFR calculation and the related disclosure in the accounts. After audit adjustments, there remains a £1.4 million unexplained difference which we have treated as un uncorrected disclosure difference.
- We identified material errors in the disclosure notes relating to the CFR and the capital adjustment account which management have agreed to amend.
- A capital receipt of £1.294 million had not been recognised in the capital receipts reserve.
- We agree with the Council's assessment that more MRP had been charged than needed to be under the guidance that was in place up to 31 March 2017. We are yet to agree the exact amount or how this will be unwound in future periods and therefore will continue to work with management in 2019/20 to confirm this position. This has no impact on the MRP charged in 2017/18 or 2018/19.
- In 2017/18 the Council changed its MRP policy from a repayment of liability basis to an asset life basis. We identified an error in the PFI accounting model that resulted in a material increase in the PFI liability. As a result to the MRP policy change, this error in the PFI accounting model would lead to additional charges to the general fund and increased MRP charges from 2017/18. The Council's view, supported by legal opinion, was the decision to change the MRP policy in relation to PFI assets, was based on incorrect information in respect of the PFI model.
- We considered the Council's view, and consulted with our own legal support. We concluded the Council's decision to amend the PFI MRP charges was based on erroneous information in the PFI models.

As a result of the above matters, the MRP charge in 2018/19 has increased from £6.1 million to £7.854 million.

Financial Statement Audit (cont'd) – Northamptonshire County Council

Minimum Revenue Provision – detailed findings

Capital Financing Requirement

We identified a £6.6 million difference between the Council's CFR and the CFR disclosed in the capital expenditure and financing note as at 31 March 2017. This was mainly due to capital loans of £8 million issued in 2017/18 that were incorrectly excluded from the CFR note. We have requested that management treat this correction as a prior year adjustment.

Following that correction, there remains an unexplained difference of £1.4 million between the CFR as at 31 March 2019 per the balance sheet and the CFR disclosed in the notes. We have treated this an uncorrected disclosure error. The impact of this difference on MRP is negligible.

Historic MRP charges

New statutory guidance came into effect from 1 April 2018 which applied to any changes to council MRP policies from that date. The Council changed its MRP policy with effect from 1 April 2017 under the previous guidance. Recalculations of the MRP due under the Council's new policy identified that the Council had charged more MRP than it needed to on certain elements of its CFR. We agree with this assessment, but are yet to agree the exact amount or how it will be unwound in future periods. We will continue to work with the Council in 2019/20 to confirm the exact position. This has no impact on the MRP charged in 2017/18 or 2018/19.

MRP on unfinanced PFI capital expenditure

The Council's new MRP policy, from 1 April 2017, changed the basis on which capital expenditure on PFI assets would be financed. Previously, the expenditure was financed in line with the repayment of the PFI liability. The new policy was to charge MRP in line with the useful life of the asset. This would create short term savings as the MRP charges based on the useful life of the asset were lower than those under the original policy in the early years of the change. This change in MRP policy in effect 'decoupled' PFI MRP charges from the PFI model.

In 2018/19, we identified an error in 2 of the PFI models. As a result, the charges to the CIES in relation to service costs and interest have been understated and MRP overstated up to 31 March 2017. From 1 April 2017, service costs and interest charges continue to be understated. Unfortunately, due to the change in the Council's MRP policy, increases in service costs and interest charges to the CIES are no longer off-set by equivalent reductions of MRP charges. As a result, the general fund balance will be impact and will reduce by £3.968 million from 1 April 2017 to 31 March 2019.

Following the reprofiling of the model, the unfinanced CFR on these PFI models as at 31 March 2017 has been increased and the associated MRP charge due under the new policy also increases. This adds £1.494 million to the MRP charges between 1 April 2017 and 31 March 2019.

Finally, we agreed with officers that it was not prudent to charge MRP on PFI capital expenditure over the useful life of the asset when the useful life exceeded the contract term and there was no prospect that the asset would transfer to the Council at the end of the agreement. Under these circumstances we agreed it would be more appropriate to charge MRP in accordance with the term of the PFI contract. This added £1.09 million of MRP in 2018/19.

The impact on the general fund of these changes up to 31 March 2019 is £6.552 million. In 2019/20, officers have calculated an additional charge of £2.965 million. We note that management are currently seeking legal advice on this issue.

In addition to the above issues, the MRP charges for PFI assets in the draft statement of accounts did not agree to the underlying records. As a result, the MRP charge in 2018/19 was increased by £1.08 million.

Financial Statement Audit (cont'd) – Northamptonshire County Council

Minimum Revenue Provision - What are our conclusions?

Capital Financing Requirement disclosures

In addition to the matters arising on the previous page we identified the following disclosure differences in the CFR note:

- £17.9 million of government grants and contributions that had been applied were omitted from the note
- £0.35 million of government grant applied was incorrectly classified as MRP in the note
- £0.882million of revenue expenditure financed from capital under statute (REFCUS) was misclassified as expenditure on PPE in the note

Other audit differences

When checking the CFR disclosures, we also identified that the Council had failed to recognise loan repayments of £1.294 million as a capital receipt in 2018/19. As a result, the CAA was overstated and capital receipts reserve understated by this amount. There was no impact on the general fund.

The split of capital financing applied disclosed in the capital adjustment account was also incorrectly stated. As a result, MRP was understated by £4.7 million and the application of grants was overstated by the same amount.

Significant risk

Valuation of complex investments

What is the risk?

The Fund's 2018/19 level 3 investments portfolio includes venture capital (£54 million), equities (£0.208 million) and property funds (£106.794 million).

Judgements are taken by the Investment Managers to value those investments where prices are not publicly available. The material nature of Investments means that changes in assumptions can result in a material valuation error.

What judgements are we focused on?

The valuation of level 3 investments as determined by Investment Managers as there is no publicly available information to corroborate valuations for these investments.

What did we do?

- Reviewed the securities making up the Level 3 investment portfolio
- Considered the basis of valuation for these investments and assessed the appropriateness of the valuation methods used, using EY experts where appropriate;
- Where available, reviewed the latest audited accounts for the relevant fund managers and ensured there were no matters arising that highlighted weaknesses in the funds valuation; and
- Performed analytical procedures and checked the valuation output for reasonableness against our own expectations.

What are our conclusions?

We determined that the valuation basis of investments were appropriate based on their classification under IFRS 13.

We identified one difference in valuation due to the different valuation date applied by the custodian (Northern Trust) compared to the fund manager (CBRE). The value of this difference was £3.5 million. We concluded that this represented an overstatement of investments and the accounts were amended.

We did not identify any matters arising that that highlighted weaknesses in the funds valuation.

We did not identify any issues from our analytical procedures.

Significant risk

Misstatements due to fraud or error - Investment income and assets – incorrect posting of investment journals

What is the risk?

We have considered the key areas where management has the material opportunity and incentive to override controls. We have identified the posting of journals related to investment income and assets as a specific area where misstatements due to fraud and error may arise.

What judgements are we focused on?

We focused on journals related to investment income and investment assets.

What did we do?

- Reviewed reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences.
- Agreed the reconciliation of holdings included in the Net Assets Statement to the source reports.

What are our conclusions?

We did not identify any significant differences between fund manager, custodian and valuer reports (other than that reported in the previous slide).

We did not identify any issues with the reconciliation of holdings included in the Net Assets Statement to the source reports.

We found that year end investment journals were raised appropriately based on information that the Pension Fund receives from its Custodian and Investment Managers.

We have not identified any instances of management override of controls in relation to year end investment journals.

Financial Statement Audit (cont'd) - Northamptonshire Pension Fund

Audit risks and areas of focus	
Risk / area of focus	**Details**
Implementation of the new financial ledger system (ERP) From April 2018, a new ledger system (ERP) was introduced across all Local Government Shared Services (LGSS) clients, which includes Northamptonshire Pension Fund. The system supports financial and HR processes.	We carried out a review of the data migration for Northamptonshire County Council as the administering body and assessed this against the EY data migration framework. The review focussed on: • Data migration strategy, plan and approach • Data profiling and cleansing • Data validation and reconciliation. We were able to verify the completeness and accuracy of the migration. We have provided a separate report which outlines recommendations for the Council to consider to improve any future data migration processes. We utilised our analytics data to test that opening balances had been appropriately brought forward.
Implementation of new accounting standards **IFRS 9 – Financial instruments** This standard changes: • How financial assets are classified and measures • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. **IFRS 15 – Revenue from contracts** • The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.	We considered the impact of IFRS 9 and IFRS 15 on the Pension Fund. For 1FRS 9, we considered the classification and valuation of financial instrument assets. We agreed with the Fund's conclusion that the impact of IFRS 9 is immaterial as assets and liabilities held by the Fund are already classed as fair value through profit and loss; and there is a limited need to recognise expected credit losses given the nature of the debts. For IFRS 15, we considered the application to the Fund's revenue streams. We agreed with the Fund's conclusion that the impact of IFRS 15 is immaterial given the nature of the income streams.

Financial Statement Audit (cont'd) - Northamptonshire Pension Fund

Audit risks and areas of focus	
Risk / area of focus	**Details**
Pension liability assumptions (IAS26) An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability. We considered the impact of recent legal rulings on the Pension Fund accounts.	We: • Reviewed the controls in place to ensure that data provided from the fund to the actuary is complete and accurate; • Reviewed the reasonableness of assumptions used in the calculation against other local government pension fund actuaries and observable data; and • Agreed the disclosure to information provided by the actuary. We identified that the actuary report had not included an assessment of the impact of GMP (see below). No further issues were noted. **McCloud** A national issue resulted in a change to the IAS26 fund liability disclosure related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The impact of this change was included in the draft financial statements presented for audit. **Guaranteed minimum pension** Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number or reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility may lead to increased costs for schemes (including the LGPS) and hence scheme employers. The actuary has estimated that GMP increases the liability for the Fund by £7 million. We confirmed this was consistent with our expectations of the impact of GMP on fund liabilities. This was not included in the draft financial statements. The IAS 26 disclosure has been updated in the final version of the statements to reflect this additional liability.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality:	
Northamptonshire County Council	We determined planning materiality to be £5.4 million, which is 0.5% of gross expenditure on provision of services as reported in the financial statements.
Northamptonshire Pension Fund	We determined planning materiality to be £25.097 million, which is 1% of Net Assets as reported in the financial statements.
Reporting threshold:	
Northamptonshire County Council	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £270,000.
Northamptonshire Pension Fund	The threshold for reporting audit differences for the Pension Fund was £1.2 million.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures - reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions, members' allowances and exit packages - reduced materiality level applied equal to the reporting threshold.
- Members' allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

04 Value for Money

Value for Money - Northamptonshire County Council

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

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

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

We identified five significant risks around these arrangements. This risks are set out on the following pages along with our findings. The procedures we have performed were outlined in our audit plan.

The Council was proactive in addressing a number of previously identified weaknesses throughout the 2018/19 financial year. However, during the year to 31 March 2019, weaknesses in arrangements were still in evidence in relation to financial resilience, Ofsted findings concerning the areas for improvement identified in Children's Services, CQC findings in relation to areas for improvement in Health and Social Care, and risk management.

Based on the work we have completed, we issued a qualified (adverse) value for money conclusion, reflecting weaknesses present in the Council's arrangements during 2018/19.

We would also note that the findings reflect our assessment of arrangements in place during 2018/19. The Council has taken action to improve arrangements in a number of these areas after 31 March 2019. Due to the timing of our work and resultant reporting and the fact that the Council is replaced by two new unitary Councils from 1 April 2021, we have not made recommendations in this report. We will follow up, review and report on arrangements as part of our work to support the 2019/20 value for money conclusion.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience: The Council reported a deficit of £41.5 million in 2017/18 and as at July 2018 was projecting a deficit of £30 million for 2018/19. Although the final outturn position for 2018/19 as reported in the draft accounts is a surplus of £4.5 million there remains a risk that this position has been achieved through one off savings and that the underlying financial position of the Council is not sustainable in the medium term. The Council reported its 'Final Budget 2019-20 and Medium Term Plan to 2022-23' to Full Council in February 2019. This included a gross general revenue budget of £617.84 million, budget pressures and inflation of £48.4 million (and further pressures/inflation of £75.1 million in the period 2020/21 to 2022/23); and a savings requirement of £41.4 million for 2019/20, representing 6.7% of the 2019/20 budget. The Council recognised in its report that this target was high and would be challenging to deliver. The budget and medium term plan contains a range of financial and funding judgements and assumptions, which require ongoing analysis and assessment to ensure they remain valid.	Take informed decisions / Deploy resources in a sustainable manner	Our work focused on: 1. The progress made in 2018/19 to recover the financial position and adequacy of monitoring of performance against the recovery plan. 2. The reasonableness of the assumptions used in the preparation of the 2019/20 budget and Medium Term Financial Plan (MTFP) 3. The level of future savings and whether these were realistic considering the Council's past performance in achieving planned savings. 4. The Council's financial resilience and adequacy of available reserves and balances. We conclude the Council did not have proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people during 2018/19. We will therefore be qualifying our value for money (VFM) conclusion in this respect. Our opinion will be included in papers presented to the March Audit Committee. We have provided more detail on our findings on the following pages.

Value for Money Risks

Detailed findings from our work on the Financial Resilience vfm risk? (continued)

1. The progress made in 2018/19 to recover the financial position and adequacy of monitoring of performance against the recovery plan.

The Council has a history of serious financial difficulties with inadequate budgeting and monitoring processes, evidenced by the adverse VFM conclusions issued by previous auditor (KPMG) for both 2015/16 and 2016/17 financial years. During the financial year 2018/19 the Council also faced financial difficulties. As part of the 2017/18 audit the Council's previous auditor raised a large adjustment challenging the Council's funding sources. This led to the Council realising that it had a deficit of c.£35 million as at 31/03/2018. Concerns were also raised about the 2018/19 in-year projected deficit and the projected deficit up to 2020/21 (totalling up to £178.9 million over the three years from 2018/19 to 2020/21).

Faced with this level of financial risk the Council put in place an in-year Stabilisation Plan to deliver the 2018/19 budget. The Stabilisation Plan was brought forward by the Chief Financial Officer, supported by the Leader of the Council and the Commissioners, proposing additional savings and options to address the 2017/18 roll-forward deficit. It was approved by the Cabinet in October 2018 when it was also agreed that progress would be reported back to Cabinet through Monthly Revenue Finance Reports.

Some progress was noted up to the end of 2018/19 in relation to the Council's ability to recover the financial position based on the Council's sustained effort in identifying additional savings and in-year mitigations, as well as having tighter monitoring of expenditure. Monthly updates and discussions regarding financial performance are evidenced in the Cabinet Minutes through the Monthly Revenue Finance Reports with an improved level of detail to support informed decision making.

However, more action and progress was required to achieve a sustainable financial position. Even though the Council delivered an underspent position for 2018/19, this was heavily reliant on Capital Dispensation obtained, the S114 Notice being in place and keeping spending to a minimum required level, and the one-off measures and non-recurrent transactions identified in the year. The savings identified in the Stabilisation Plan were only partially achieved (less than 50%), which suggests that either the planned savings were overly ambitious, or the Council failed to implement the necessary actions to achieve them.

Value for Money Risks

Detailed findings from our work on the Financial Resilience vfm risk? (continued)

2. The reasonableness of the assumptions used in the preparation of the 2019/20 budget and Medium Term Financial Plan (MTFP); and

3. The level of future savings and whether these were realistic considering the Council's past performance in achieving planned savings.

The previous auditor concluded that the Council did not have a robust approach to financial planning and relied heavily on one-off measures to achieve its budgetary position. It also displayed an inability to deliver planned savings.

Based on our review, the assumptions around spending at Directorates level and around delivery of savings appear to be weak in 2018/19. The budgeted figures at Directorate level do not show an increase proportionate with the historical overspend and in-year pressures. The Council recognised this risk, highlighting the need for strong monitoring and preparation of timely action plans, together with ensuring that all practical steps had been considered in order to account for any potential risks and uncertainties. However, the risk of not delivering a balanced budget increases if the planned levels of savings are not achieved and the adequate balances and resources are not available to offset the impact.

The Council does not have a strong track record of delivering savings, with undelivered savings of £11 million from the £35.8 million 2018/19 Budgeted Savings and £11.8 million from the additional £20 million 2018/19 Stabilisation Plan Savings.

The capacity to deliver £41.4 million savings in 2019/20 (representing 6.7% of the budget) was not realistic when compared with previous achieved outturns, even if to mitigate this risk, the Council established regular monitoring and reporting. The Council commented that £6 million was the full year effect of changes already delivered in prior years, £13 million related to proposals that could be delivered early in the 2019/20 financial year without the need for a business case, leaving a balance of c.£22 million. However, the latter figure referred to the savings that required change or transformation in service delivery, hence being more difficult to achieve. The Council reported delivered savings of £32.9 million from the £41.4 million savings target for 2019/20, with undelivered savings of £8.5 million.

The annual budgeted savings figures from 2020/21 onwards were lower than in previous years, which decreases the pressure and is more aligned with the Council's ability to deliver savings.

The remaining assumptions used for the preparation of the 2019/20 Budget and MTFP (i.e. regarding inflation rates, Council Tax, grants and other sources of funding, and flexible use of capital receipts) appeared reasonable.

Value for Money Risks

Detailed findings from our work on the Financial Resilience vfm risk? (continued)

4. The Council's financial resilience and adequacy of available reserves and balances.

The Council has a history of relying on reserves to balance the General Fund Budget.

The closing balance in March 2019 was £19.9 million for the earmarked reserves, of which £9.3 million was allocated to the Budget Delivery Reserve, including the £4.8 million from Capital Dispensation approved in November 2018. Additionally, £20 million from the Capital Dispensation had been used to create the General Fund Reserve.

We note that whilst the Council had produced the financial plan without the use of reserves to balance the budget in 2019/20, there is still a planned savings gap in the remaining years. If extra mitigations or savings were not found and the planned savings for 2019/20 were not delivered, then the Council may have had to cover the deficit by using reserves again.

Therefore, whilst the reserves balances created were likely sufficient to cover budget variances over the 2019/20 budget, this did not leave much leeway over the medium term and comparison with other county councils suggests much higher levels of savings are required in order to achieve financial resilience.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Children's Services: A single inspection of Children's Services undertaken by Ofsted in 2016 assessed the service as requires improvement in all areas. A further focused visit in May 2018 found the services had significantly deteriorated since inspection in 2016.	Take informed decisions	We reviewed the Council's arrangements to address the weaknesses in Children's Services during 2018/19. Our review confirms the view that, during 2018/19, the Council did not effectively address the areas of concern identified by Ofsted. There was a lack of oversight by Cabinet in 2018/19 and the Children, Learning and Communities Scrutiny Committee was disbanded during the year and replaced by a single Oversight and Scrutiny Committee. The presence of just one Oversight and Scrutiny Committee made it difficult to monitor and measure the progress in Children's Services effectively given the wide ranging remit of the Committee. Ofsted concluded in June 2019 "there remained a range of significant weaknesses in services whose effectiveness is central to protecting children". The Council has taken steps to try and improve the current situation, such as reviewing social worker recruitment and retention, but this had not resulted in significant change in 2018/19. The creation of Northamptonshire Children's Improvement Plan indicated that actions were being taken to address the concerns raised by Ofsted, but target dates were predominately in 2019/20 and there was no indication that work had begun in 2018/19, as the plan was not finalised until May 2019. We conclude the Council did not have proper arrangements to respond to the recommendations raised by Ofsted during 2018/19. We will therefore be qualifying our Value for Money Conclusion in this respect. Our opinion will be included in papers presented to the March Audit Committee.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
CQC local system review: A local system review for Northamptonshire was carried out by the Care Quality Commission in April 2018, reporting in June 2018, to understand how people move through the health and social care system in Northamptonshire. The report highlighted weaknesses and challenges in the system and included suggested areas of focus for the system to secure improvement.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	We considered how the Council addressed the findings from the June 2018 CQC in 2018/19, and what more needed to be done at March 2019. The Council implemented a series of changes in light of the CQC Report. At June 2019, five out of 23 actions remained outstanding. These were: • Establish County Health and Social care Commissioning Unit; • Engagement of Healthwatch on what people want from Health and Social Care partners when they are admitted; • System Assurance Discharge Group set up; • Occupancy issues, with 35 beds released, but 22 still required until September 2019; and • Staff workforce strategy still in progress. Whilst the Council had plans to address these items, it was unable to address fully the CQC Report findings by the end of 2018/19. Based on our review, implementation and effectiveness of these changes was hindered by: • A lack of clear actions which were directly linked to CQC recommendations, some of which did not have clear targets so it was difficult to determine whether or not they had been achieved; • A lack of a monitoring process to support implementation and/or drive change; and • Lengthy detailed progress reports which did not provide an 'at a glance' view to enable Officers and Members to focus on the most important gaps. The Action Plan created and maintained by the Council provided structure and guidance in addressing key areas, but changes to the plan in its second iteration (such as the removal of the RAG rating) made it harder to assess how the Council was tracking against the action points. Furthermore, the Action Plan was not directly linked to the CQC recommendations, which made it difficult to determine whether the Council had effectively addressed the recommendations. We conclude the Council made improvements to arrangements, however there were remaining weaknesses in arrangements during 2018/19. We will therefore be qualifying our Value for Money Conclusion in this respect. Our opinion will be included in papers presented to the March Audit Committee.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Risk management: Weaknesses in the risk management framework were reported in the 2017/18 ISA 260. The issues reported included risk registers not being reviewed and updated regularly, thereby weakening the assurance that the Council was dealing with issues appropriately and in a timely manner.	Take informed decisions / Deploy resources in a sustainable manner	Our approach reviewed the arrangements at the Council during 2018/19, with specific focus on the risk management framework, including how roles and responsibilities are defined, and how risks are identified, assessed and escalated. The creation and maintenance of a risk register shows the Council has a proactive approach to risk management, and that it has considered specific controls to mitigate the risks identified. Indeed, the quality of the Corporate Risk Register improved over the course of 2018/19 and there was no evidence that new or emerging risks were not being identified, yet there was still a lack of detail in the risks and controls. Risks were not sufficiently detailed, and it is unclear which controls are intended to address which risks. In addition, the Council had not documented any consideration of the effectiveness of the deployed controls, nor indicated how the adequacy assessment is made. The Council's desire to ensure that each sub-department had its own risk register is positive, but these were not monitored at the Audit Committee level, and this lack of oversight and independent query could be problematic. This is further exacerbated by a lack of oversight of the Corporate Risk Register outside of the Audit Committee. There was only limited review by Cabinet, and the Oversight and Scrutiny Committee was not kept appraised of any risk management issues either. Overall, whilst the risk registers were maintained on a regular basis and there is evidence they were updated and reviewed with regularity by the Audit Committee, the quality of the Corporate Risk Register was insufficient. Failure to properly identify, address and monitor risks will limit the Council's ability to make informed decisions and deploy resources sustainably. We will therefore be qualifying our Value for Money Conclusion in this respect. Our opinion will be included in papers presented to the March Audit Committee. We will review how training is provided to staff on the new risk management framework in 2019/20.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Preparations for local government reorganisation: In April 2021, the eight local authorities in Northamptonshire will be replaced with two new unitary councils; one serving the North of the County and one the West of the County. The decision to create the two unitary authorities was confirmed by the Minister for Local Government in September 2019. The Northamptonshire Structural Changes Order 2019 (SCO) – which sets out how the two new unitary authorities will be formed to replace the existing eight councils on 1 April 2021 – was signed into law on 13th February 2020.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	We reviewed the arrangements at the Council during 2018/19 to prepare for local government reorganisation. The decision from the Secretary of State to approve the Government re-organisation was not announced prior to the end of 2018/19. Given that the decision had not been made, the Council had to be cognisant of making decisions and incurring costs which could be avoided if the decision to go ahead with the reorganisation was not made. At the beginning of the process, the Council obtained external advice and support to provide a detailed overview and understanding of the issue. This ensured that any decision to proceed with the reorganisation was both well informed and met the requirements from the Secretary of State. Once the decision had been made by the Council to proceed, Steering Committees were established to consider the required inputs for the Structural Change Order. The Council also created Joint Committees for both authorities, and a Working Group to ensure there was democratic oversight of the process. The steps taken highlight a good level of preparation for the reorganisation, especially in light of a pending decision from the Secretary of State. Council meetings clearly indicate that all Councillors were involved in the decisions made in relation to the reorganisation, with third party reports also considering the opinions of local residents and businesses. The steps taken by the Council appear to be appropriate, and evidence a good level of preparation of the local government reorganisation.

05 Other Reporting Issues

Other Reporting Issues

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council and Pension Fund's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. 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.

We completed this work and did not identify any areas of concern.

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the other information published with the Council and Pension Fund financial statements. The other information comprises the Statement of Accounts 2018-19.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 30 March 2021 and 25 June 2020. 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 regulatory and professional requirements.

Other Reporting Issues (cont'd)

Control Themes and Observations

It is the responsibility of the Council and Pension Fund 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 the Council and Pension Fund auditor is to consider whether the Council and Pension Fund have 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 the Council significant deficiencies in internal control.

We reported the following issues in relation to our audit of the County Council accounts:

Throughout the 2018/19 audit, due to the passage of time elapsed since the financial statements were compiled and turnover of staff who prepared working papers, there have been significant delays to our work, where it has been difficult to obtain adequate information and detailed breakdowns to enable sample selection and provision of subsequent supporting information. Significant additional resource has been required, both from EY and also the Council's close-down team, to understand multiple iterations of working papers as the responses received for many of our sample requests have not been sufficient first time round.

In January 2021, senior members of the Council closedown team met with the audit team to outline improvements that have been made and continue to be made in the accounts process to enable more efficient identification of sample populations with clearer links to where supporting documentation is either stored or available. These discussions should help to address some of the most significant issues that have led to delays in the 2018/19 audit and improve the process for the 2019/20 audit.

A summary of the control findings are set out on the following pages. Full details of the control findings along with management's response to each is reported in our 2018/19 Audit Results Reports presented to the 30 March 2021 Audit Committee.

Other Reporting Issues (cont'd)

Control findings

Area	Observation
Preparation of the Statement of Accounts	The draft 18/19 Statement of Accounts contained a significant level of errors and have required a number of material adjustments, material disclosure amendments and prior period adjustments.
Journals	• A significant number of journals posted in the year were via an auto-approval. The list of individuals with auto-approval privileges for journals seemed excessive. • We found two journals raised by the systems team, that were auto-approved, but did not have an attached work-flow to support the process. • In instances where a preparer does not have auto-approval privileges, the budget should be approved by the budget holder. We identified two journals where the journal was raised by the budget holder and then subsequently approved by the same individual, thus creating auto-approval where it should not exist. For each of these journals we have been able to obtain the underlying support and are able to confirm that the journal was not inappropriate.
Capitalisation of Intangible Assets	We have noted inconsistencies in the application of the policy for capitalising intangible assets, whereby the point within the progress of a project at which intangible assets have been capitalised has varied. This has led to deficiencies in the audit trail to provide suitable supporting evidence, particularly where some projects span a number of years.
Group Considerations	The Council had two subsidiary companies which were live in 2018/19 that, although immaterial for consolidation purposes, were not audited. S479 of the Companies Act allows for wholly owned subsidiaries to be made exempt from audit whereby the parent provides that exemption. This exemption should be made prior to the accounts of the subsidiary being files at Companies House.
Members Interests	Declaration of interest forms were sent to members to sign via email, to be returned to an unmonitored email address. It was therefore not noticed where forms had not been returned. We noted 47 forms, out of 48 requested, were not returned. Audit work confirmed no material omissions were made in the compilation of the related parties note, but the controls in place for the year were not sufficient to prevent any such errors.
VAT	The Council does not have one account code that holds all VAT. As VAT is therefore spread across multiple codes and suspense accounts it has proved challenging to isolate. When the Council reviewed historic balances within the VAT debtor, £1.3 million has been written off as irrecoverable. We obtained material assurance over the revised VAT debtor disclosed at the year-end. However, record keeping processes are such that there could be financial loss to the Council.
Long-term Debtors – Adult Social Care	We identified during testing of Adult Social care long-term debtors cases where there is no legal charge and the person died many years ago (one case goes back to 2004). No invoice has been raised and there is no evidence or limited evidence of the Council chasing the debt.
Cash and Bank	We experienced delays in receiving bank confirmation letters due to outdated mandates. The Council should be aware of who are the authorised signatories for all accounts and update mandates at the earliest possible opportunity.

Other Reporting Issues (cont'd)

Control findings (continued)

Area	Observation
Accounting for Schools	We identified a material adjustment due to one school being omitted from the Financial Statements. The circumstances of this were unusual in that the school was transferred to the Council, when the developer went into administration in May 2017, before becoming an academy, which didn't happen until April 2020. Despite the unusual circumstances, a control should exist to ensure such transactions are captured.
Revenue Grants – PE Sports Grant	The Council received £2.2 million from central government to distribute on a formula basis to maintained schools. It is a condition of the grant that the Council check that the money is spent on suitable equipment. The Council have not routinely monitored whether the school spends the grant in line with the conditions. The Council provides training to the schools to advise them on what the grant should be spent on but do not check that this has occurred in practice. We obtained specific representation from the Council that they are not required to return any of this grant.
Heritage Assets	Heritage assets are not revalued in accordance with the Council's accounting policy which states that assets are revalued every year. Although this has not led to a significant misstatement; the Council should ensure that assets are revalued every year in compliance with their accounting policy, or revise their accounting policy to reflect what actual practice, ensuring that the revised accounting policy is in line with the Code.
Unallocated Income	Our testing of creditors at the balance sheet date included a number of items of unallocated income, totalling £455,000. There are often many reasons for there to be balances held in a credit suspense account, but this can also be indicative of difficulties in administration of debt leading to less management information regarding outstanding amounts. This can also lead to unnecessary costs or reputational risk of chasing up debts that have already been recovered.
Capitalisation of Intangible Assets	There were items of expenditure tested that could not be supported by sufficient appropriate evidence. For other sample items, it has been very challenging for the Council to support the capitalisation as the projects can go back several years and documentation has not been retained in a way that is easily accessible and available to be provided as audit evidence.

06 Audit Fees

Audit Fees

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

We confirm that we have not undertaken any non-audit services.

Description	Final Fee 2018/19 £	Planned Fee 2018/19 £	Scale Fee 2018/19 £
Northamptonshire County Council Total Audit Fee – Code work	797,982 (Note 1)	600,000	105,998
Northamptonshire Pension Fund Total Audit Fee – Code work	32,199 (Note 2)	24,199	18,699

Note 1 – As noted in our Audit Planning Report for Northamptonshire County Council, for 2018/19 we agreed with PSAA that we would agree an amended scale fee to reflect the level of additional risk in the audit. We initially estimated this amended scale fee based on the overall level of increased risk as well the specific risks identified in our Plan. Based on the level of risk identified at the planning stage, and consideration of the predecessor auditor's fee we expected this to be in the region of £600,000. Having completed our audit, based on the level of additional work undertaken as set our in this report, we revised the proposed fee to £797,982. We agreed the additional fee with the Executive Director of Finance and Deputy Chief Executive of Northamptonshire County Council and this will now need to be approved by PSAA.

Note 2 - As reported in our Audit Plan, for the Pension Fund we plan to charge an additional fee of £5,500 in 2018/19 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies. In addition, we carried out additional procedures during the audit in relation to Covid-19 consultations related to going concern and post balance sheet event disclosures. The proposed fee for this work is £8,000. This fee needs to be agreed with management and approved by PSAA.

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ED None

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Northamptonshire County Council - External Audit Planning Report Year Ending 2019/20**
Report Author	Debbie Middleton – Interim AD Sovereign Accounts Closure (NCC/NBC/NFRA) – Debbie.Middleton@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	Via Geoff Wild 29/6/21
West S151	Martin Henry	28/6/21
Other Director/SME	Audra Statham	29/6/21

List of Appendices

Appendix A – Northamptonshire CC Ernst & Young Audit Planning Report– Year End 31 March 2020.

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to update the Committee in relation to the audit plan for the audit of the Northamptonshire CC 2019/20 Statement of Accounts.

2. Executive Summary

2.1 Ernst & Young LLP (EY LLP) was appointed as the external auditor for Northamptonshire County Council from the 2018/19 financial year through to the 20/21 financial year. The external auditor is required to update this Committee in relation to the audit plan for 2019/20. The audit is in progress and is currently on track for EY LLP to report the audit findings in September 2021. The audit planning report is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2019/20 Audit Planning report for Northamptonshire County Council.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's audit planning report at appendix A sets out:

- The overall strategy for the audit
- Audit risks
- Value for Money risks
- Audit materiality
- Scope of the Audit
- Overview of the audit team
- Overview of the audit timeline
- Independence statement
- Appendices detailing audit fees, required communications with the Committee and other audit information.

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate the audit plan to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

Northamptonshire County Council

Audit planning report

Year ended 31 March 2020

28 July 2021

Building a better working world

Private and Confidential

Audit Committee
West Northamptonshire Council
C/o One Angel Square
Angel Street
Northampton,
NN1 1ED

28 July 2021

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor for Northamptonshire County Council. Its purpose is to provide the Audit Committee (of the successor body, West Northamptonshire Council) with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. This plan summarises our initial assessment of the key risks driving the development of an effective audit for Northamptonshire County Council for the fiscal year 2019/20, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and 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 on 28 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Contents

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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the **Audit Committee and management of** Northamptonshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Audit Committee, and management of** Northamptonshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Audit Committee and management of** Northamptonshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit 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	Risk identified	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	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. As part of our planning we have considered the areas of the accounts which could be subject to a risk of manipulation. The specific risks identified in this area are: ➢ Incorrect capitalisation of revenue expenditure ➢ Incorrect classification of revenue expenditure funded by capital under statute ➢ Incorrect application of cut-off
Misstatements due to fraud or error	Fraud risk	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.
Valuation of land and buildings, including investment properties	Significant risk	The fair value of land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. We will specifically focus on assets where a higher degree of estimation uncertainty exists; which for Northamptonshire County Council is those assets valued under one of the following valuation methods: ➢ Fair Value (such as investment Properties); ➢ Depreciated Replacement Cost (Specialised operational assets for which an active market does not exist); and ➢ Existing Use Value (Operational assets for which there is an active market to provide comparable evidence) Our assessment is that this risk is linked to other land and buildings due to the range of valuation bases and assumptions included within that balance, and to investment properties.

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit 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	Risk identified	Details
Going concern assessment and disclosures	Significant risk	CIPFA's Code of Practice on Local Council Accounting in the United Kingdom states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review and challenge management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. For the Council, there are particular challenges in the going concern assessment, which include: ➢ The Council's financial position remained challenging through 2019/20 and 2020/21 until its demise on 31 March 2021 when the two new Unitary Councils were formed; and ➢ Local government reorganisation - although there is continuation of service, from April 2021, services will be delivered by two Unitary Councils and the Children's Trust in Northamptonshire As a result of these factors the going concern assessment and disclosures has been assessed as a significant risk. The Council will need to ensure it makes full and appropriate disclosure in its financial statements related to going concern and in particular the above matters. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period. We will review the Council's going concern assessment and disclosure and consider in particular the impact of the financial position and local government reorganisation.

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit 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	Risk identified	Details
Valuation of pension liability	Higher Inherent risk	The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on its balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Minimum revenue provision	Higher Inherent risk	The minimum revenue provision is the minimum amount that must be set aside by the Council each year to pay for capital expenditure financed through borrowing. The Council changed their approach to MRP effective in 2017/18, but with significant impact in ongoing years. The Council engaged external treasury management specialists, Link Asset Services, to review its provision. This is a complex calculation and any errors in the calculation can impact on the level of Council's useable reserves or may mean that the provision calculated is not considered prudent as required by statutory guidance. Although we were able to carry out sufficient work in 2018/19 to conclude MRP was not materially misstated, there remain areas of the Council's calculation that have yet to be resolved by the finance team.
Private Finance Initiative	Higher Inherent risk	The Local Authority Accounting Code of Practice requires that PFI (Private Finance Initiative) schemes should be accounted for on the basis of IFRIC 12 "Service Concessions". The Council's total future obligation in relation to its PFI schemes as at 31 March 2020 is £1.05 billion. These values are derived from complex models which reflects a number of assumptions which may change over the life of the contract. Any errors in the model could impact on liabilities and any charges to revenue in year.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality
£9.8m

Materiality has been set at £9.8 million, which represents 1% of the gross expenditure on provision of services presented in the draft 2019/20 financial statements.

Performance materiality
£4.9m

Performance materiality has been set at £4.9 million, which represents 50% of materiality.

Audit differences
£0.49m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, and cash flow statement) greater than £0.49 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Northamptonshire County Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

Our audit will also include the mandatory procedures that we are required to 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 Northamptonshire County Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent 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, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore, to the extent any of these or any other risks are relevant in the context of the Northamptonshire County Council audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2019/20 audit strategy

Audit scope (continued)

Designation of the audit as close monitoring

The Northamptonshire County Council audit has been designated as close monitoring due to the following risk factors

- Two new unitary authorities will be formed to replace the existing eight councils in Northamptonshire on 1 April 2021;
- The Council is subject to high levels of public scrutiny due to its financial position and the transition to a unitary authority model across Northamptonshire;
- The financial position of the Council remains challenging and previously required a £70 million capitalisation direction in order to recover this position;
- MHCLG appointed Commissioners to oversee the financial governance of the Council following a critical Best Value inspection; and
- Following an inspection of children's social services that concluded children's services inadequate, a Chlidren's Commissioner has been appointed with the aim of establishing an independent trust to run the county's children's services alongside the new unitary authorities.

Audit Response

- Allocates a Partner as Engagement Lead, with support from an Associate Partner and Senior Manager;
- Allocated a Partner as an engagement quality control reviewer; and
- Identification of specific risk areas and the areas where we need to engage relevant EY specialists to support the engagement team.

Communication with those charged with governance

- We will communicate to those charged with governance any significant changes to our audit strategy since our communication about risk factors that led to or contributed to the close monitoring designation, and the reasons for those changes; and
- We will also communicate any new risk factors we identify and consider significant that warrant the attention of those charged with governance.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition – incorrect capitalisation of revenue expenditure*

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts have the following balances in the draft 2019/20 financial statements:

Amounts reported in the draft financial statements are:

Gross Income (cost of services): £551 million

Gross Expenditure (cost of services): £914 million

Capital additions (reported in Note 22): £46.8 million

What is the risk?

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.

A key way to improve the revenue position is through the inappropriate capitalisation of revenue expenditure.

The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What will we do?

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect capitalisation of revenue expenditure:

- For significant additions, we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- We will extend our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- As part of our journal testing strategy, we will use our analytics data to identify unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure/capital additions and the credit to expenditure. We will review these journals to ensure they are appropriate.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition – Incorrect classification of revenue expenditure funded by capital under statute (REFCUS)*

Financial statement impact

Misstatements that occur in relation to the financing of revenue expenditure from capital could affect the comprehensive income and expenditure account and the balance sheet by reducing the level of revenue expenditure in year needing to be funded from revenue sources.

Amounts reported in the draft financial statements are:

REFCUS £16 million

What is the risk?

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.

By incorrectly classifying expenditure as REFCUS, the Council could improve the reported revenue position.

What will we do?

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect classification of expenditure as revenue expenditure funded by capital under statute (REFCUS):

- Test a sample of REFCUS items at a lower testing threshold to verify that they have been appropriately classified as REFCUS.

Our response to significant risks

Risk of fraud in revenue and expenditure recognition – incorrect application of cut-off

Financial statement impact

Misstatements that occur in relation to the financing of revenue expenditure from capital could affect the comprehensive income and expenditure account and the balance sheet by reducing the level of revenue expenditure in year needing to be funded from revenue sources.

Amounts reported in the draft 2019/20 financial statements are:

Gross Income (cost of services): £551 million

Gross Expenditure (cost of services): £914 million

What is the risk?

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

We have assessed that an area open to a greater risk of manipulation is in the inappropriate application of cut-off such that expenditure related to the 2019/20 financial year is recorded in 2020/21.

We have also identified a risk relating to the omission of expenditure accruals and overstatement of year end debtor balances to again improve the reported outturn. We have identified the manipulation of year end debtor and creditor balances as the most likely means to impact the reported income and expenditure positions, rather than in year income and expenditure postings.

What will we do?

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect application of cut-off:

- Extend our cut-off procedures to ensure items of expenditure is recorded in the correct year;
- Test year-end debtors and creditors at a lower testing threshold to verify they have been recorded at the appropriate amount and in the correct year;
- Extend our testing of unrecorded liabilities.

Our response to significant risks (continued)

Misstatements due to fraud or error	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We will perform mandatory procedures to address the general risk of fraud, regardless of specifically identified fraud risks. These include: ➢ Identifying fraud risks during the planning stages. ➢ Inquiry of management about risks of fraud and the controls put in place to address those risks. ➢ Understanding the oversight given by those charged with governance of management's processes over fraud. ➢ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ➢ Determining an appropriate strategy to address those identified risks of fraud. ➢ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ➢ Assessing accounting estimates for evidence of management bias; and ➢ Evaluating the business rationale for any significant unusual transactions.

Our response to significant risks (continued)

Significant risk – valuation of land and buildings, including investment properties

Financial statement impact

Misstatements that occur in relation to the valuation of land and buildings and investment properties could affect the balance sheet by materially misstating the valuation of these assets. They may also impact on the income and expenditure account through the impact on depreciation charges.

Amounts reported in the draft financial statements are:

- Land and buildings (per Note 12): £429 million
- Investment properties: £51 million
- Depreciation of land and buildings: £19 million

What is the risk?

The fair value of land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We will specifically focus on assets where a higher degree of estimation uncertainty exists; which for Northamptonshire County Council is those assets valued under one of the following valuation methods:

- Fair Value (such as investment Properties);
- Depreciated Replacement Cost (Specialised operational assets for which an active market does not exist); and
- Existing Use Value (Operational assets for which there is an active market to provide comparable evidence)

Our assessment is that this risk is linked to other land and buildings due to the range of valuation bases and assumptions included within that balance, and to investment properties.

Our response to significant risks (continued)

Significant risk – valuation of land and buildings, including investment properties (continued)

What will we do?

In terms of the overall response, we will:

- evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- Ensure the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted;
- adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes.

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of property, including investment properties:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation;
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Test valuation assumptions used by the valuer for a sample of assets;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

We will engage EY valuation specialists to assist the audit team to review a sample of assets valuations.

Our response to significant risks (continued)

What is the risk?	What will we do?
Going concern disclosures: Significant risk Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA's Code of Practice on Local Council Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. We will review the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether they include necessary disclosures regarding any material uncertainties that do exist. We will consider whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these will include consideration of: ➢ Current and developing environment: ➢ Liquidity (operational and funding); ➢ Mitigating factors; ➢ Management information and forecasting; ➢ Sensitivities and stress testing; ➢ Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.; and ➢ Continuation of services post local government reorganisation In undertaking this work, we will need to take into account that the Council's financial position for 2019/20 was challenging, and that as the Council ceased to exist on 31 March 2021, the going concern assessment will include the service continuity provided by the two new Unitary Councils. We will review the Council's going concern assessment and disclosure for 2019/20 in line with auditing requirements and consider in particular the Council's consideration and disclosure of the impact on the future financial position as a result of Covid-19 and the local government reorganisation.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of net pension liability The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of the pension net liability: ➢ Liaise with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Northamptonshire County Council; ➢ Consider the impact of any movement in pension fund asset values between the date of the IAS19 report and 31 March 2020, taking into account assurance requested from the pension fund auditor on these movements; ➢ Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; ➢ Engage with the Council, and their actuary, to understand any impact of the McCloud judgement and GMP rulings on the IAS19 liability; and ➢ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. We will engage EY pension specialists to assist the audit team.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Minimum revenue provision (MRP) The MRP represents the minimum amount charged to the Council's revenue account each year in order to meet the costs of repaying amounts borrowed. This ensures that the Council makes a satisfactory annual provision for loan repayments. The Council reviewed their MRP policy with effect from 2017/18 and identified that MRP had been over-provided, based on a retrospective application of the Council's new MRP policy. The Council planned to release this amount over subsequent years. We reported to the Council in our 2018/19 Audit Results Report that we gained sufficient assurance for the release of the over provision used. There remains an inherent risk concerning the remaining value of calculated over provision to be released.	Our approach will focus on: ➢ Assessing the conclusions drawn on the work and assumptions used in the calculation by re-modelling the calculation; and ➢ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to MRP.
Private Finance Initiative The Local Authority Accounting Code of Practice requires that PFI (Private Finance Initiative) schemes should be accounted for on the basis of IFRIC 12 "Service Concessions". The Council's total future obligation in relation to its PFI schemes as at 31 March 2020 is £1.05 billion. These values are derived from complex models which reflects a number of assumptions which may change over the life of the contract. Any errors in the model could impact on liabilities and any charges to revenue in year.	We will: ➢ Confirm our understanding of the process of how the PFI models are maintained and updated; including how the output of the models are included within the Council's financial statement closing processes; ➢ Identify those inputs to the model which are estimates and undertake audit procedures to gain assurance over the reasonableness of these estimates; ➢ Engage EY's internal specialists to review the PFI model to ensure the inputs and accounting are in line with our expectations; and ➢ Confirm that year end journal entries in relation to the PFI schemes have been processed accurately.

Auditing a predecessor body

Impact and Response

Preparing the accounts and supporting the audit for a predecessor body puts pressure on the officers of West Northamptonshire and North Northamptonshire councils, given their existing responsibilities within the new organisations. Delivering an audit "out of cycle" puts pressure on our resourcing model to ensure that we retain continuity of staff and knowledge through this audit and into the final audit year of 2020/21. As both teams are working remotely, we are focused on making best use of technology to ensure we have secure data transfer methods in place and on effective working and communications arrangements between the two teams to ensure that the audit goes as smoothly and timely as possible.

In planning, performing and reporting the audit of Northamptonshire County Council to West Northamptonshire Council Audit Committee, we are aware that many members may have had no role with the predecessor organisation. We are working with officers to ensure that the role of the audit committee in reviewing and approving the accounts of Northamptonshire County Council is clearly set out, and that the information provided is in a form that will allow members to gain sufficient assurance to be able to undertake that role appropriately.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether for Northamptonshire County Council 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 2019/20 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.

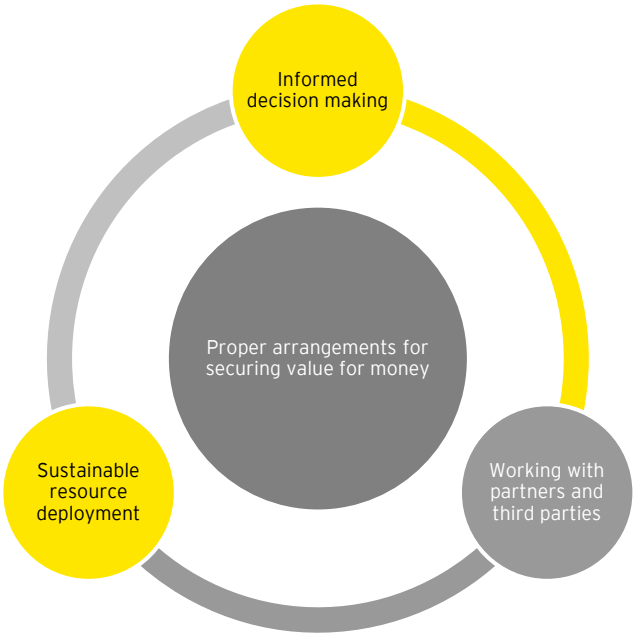
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. For 2019/20 this will include consideration of the steps taken by the Authority to consider the impact of both Brexit and the coronavirus on its future service provision, medium-term financing and investment values.

Our risk assessment will therefore consider both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. Our risk assessment is substantially complete and we have identified the areas that are likely to present a significant risk and which we therefore need to undertake more work on as part of our risk assessment. These are noted on the following pages. We will continue to revisit and update our risk assessment throughout the audit.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Financial resilience: The Council has a history of serious financial difficulties with inadequate budgeting and monitoring processes, evidenced by adverse VFM conclusions in 2017/18 and 2018/19. Some progress was noted up to the end of 2018/19 in relation to the Council's ability to recover the financial position based on the Council's sustained effort in identifying additional savings and in-year mitigations, as well as having tighter monitoring of expenditure. Monthly updates and discussions regarding financial performance are evidenced in the Cabinet Minutes through the Monthly Revenue Finance Reports with an improved level of detail to support informed decision making. However, more action and progress was required to achieve a sustainable financial position. Even though the Council delivered an underspent position for 2018/19, this was heavily reliant on a Capital Dispensation obtained, the S114 Notice being in place and keeping spending to a minimum required level, and the one-off measures and non-recurrent transactions identified in the year. The savings identified in the Stabilisation Plan were only partially achieved (less than 50%), which suggests that either the planned savings were overly ambitious, or the Council failed to implement the necessary actions to achieve them.	Take informed decisions / Deploy resources in a sustainable manner	Our approach will focus on reviewing the Council's arrangements during 2019/20 to secure financial resilience. As part of this we will consider whether: ➢ Management actively monitored performance against the budget during the year and, if necessary, took reasonable actions to address divergences; ➢ The Council used reasonable assumptions for the preparation of the 2020/21 MTFP; ➢ The level of savings assumed within the 2020/21 MTFP were realistic considering the Council's past performance in achieving planned savings; ➢ The available reserves and balances were adequate compared to the Council's overall budget requirements and arrangements were established to ensure these were used in a sustainable manner to address unexpected/one-off events.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Children's Services: Inspections of Children's Services undertaken by Ofsted in 2016 and 2018 assessed the service as 'requires improvement' in all areas. The Council took steps, such as the creation of Northamptonshire Children's Improvement Plan, to address the concerns raised by Ofsted. The target dates for most of the actions were predominately in FY 2019/20.	Take informed decisions	Our approach will focus on reviewing the Council's progress to address the weaknesses in Children's Services during 2019/20. As part of this we will consider: ➢ Whether or not the Council made progress against the Northamptonshire Children's Improvement Plan, meeting targets set for 2019/20; and ➢ The impact of the actions taken by the Council to respond to the report findings and improve the performance of the service by reference to any external or internal reviews.
CQC local system review: A local system review for Northamptonshire was carried out by the Care Quality Commission in April 2018, reporting in June 2018, to understand how people move through the health and social care system in Northamptonshire. The report highlighted weaknesses and challenges in the system and included suggested areas of focus for the system to secure improvement. The Council implemented a series of changes in light of the CQC Report during 2018/19. However, by June 2019, five out of 23 actions remained outstanding.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	Our approach will focus on reviewing the arrangements at the Council during 2019/20. As part of this we will consider whether: ➢ The Council identified clear actions directly linked to CQC recommendations and progress was monitored accordingly; and ➢ The five outstanding actions had been addressed by the end of 2019/20.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Risk management: The Council had a history of weaknesses for its risk management framework as evidenced by adverse VFM conclusions in 2017/18 and 2018/19. Our work in 2018/19 identified, whilst the risk registers were maintained on a regular basis and there is evidence they were updated and reviewed with regularity by the Audit Committee, the quality of the Corporate Risk Register was insufficient. Failure to properly identify, address and monitor risks will limit the Council's ability to make informed decisions and deploy resources sustainably.	Take informed decisions / Deploy resources in a sustainable manner	Our approach will focus on reviewing the arrangements at the Council during 2019/20. As part of this we will consider: ➢ Whether or not the risk registers were effectively maintained by the Council, and reviewed and updated on a regular basis; and ➢ Identifying and obtaining evidence of how training is provided to staff on the risk management framework.

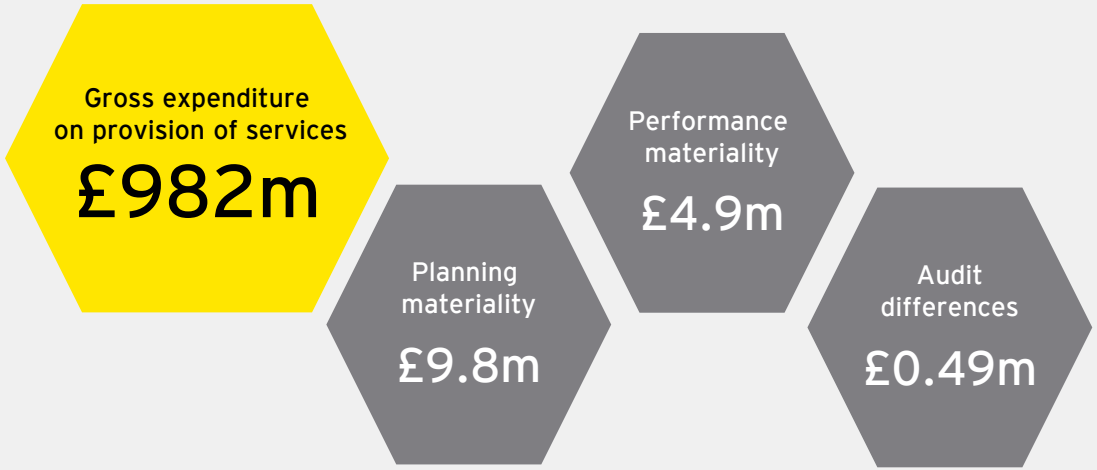
04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £9.8 million. This represents 1% of the Council's gross expenditure on provision of services reported in the draft financial statements. In setting our overall materiality we have considered the level of public interest in the Council's accounts and other factors including the Council's current financial position and the our risk assessment of the Council obtained during our first year as the Council's auditors in 2018/19. As a result, we have applied a level of 1% of the gross expenditure on provision of services. This represents an increase in the materiality applied in 2018/19.

Materiality will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £4.9 million which represents 50% of planning materiality. For initial audits, we typically set performance materiality at 50%. As a result of the level of adjustments identified in 2018/19 we will not be increasing this threshold for 2019/20 and have therefore set performance materiality at 50%.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality – We will set a lower level of materiality for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

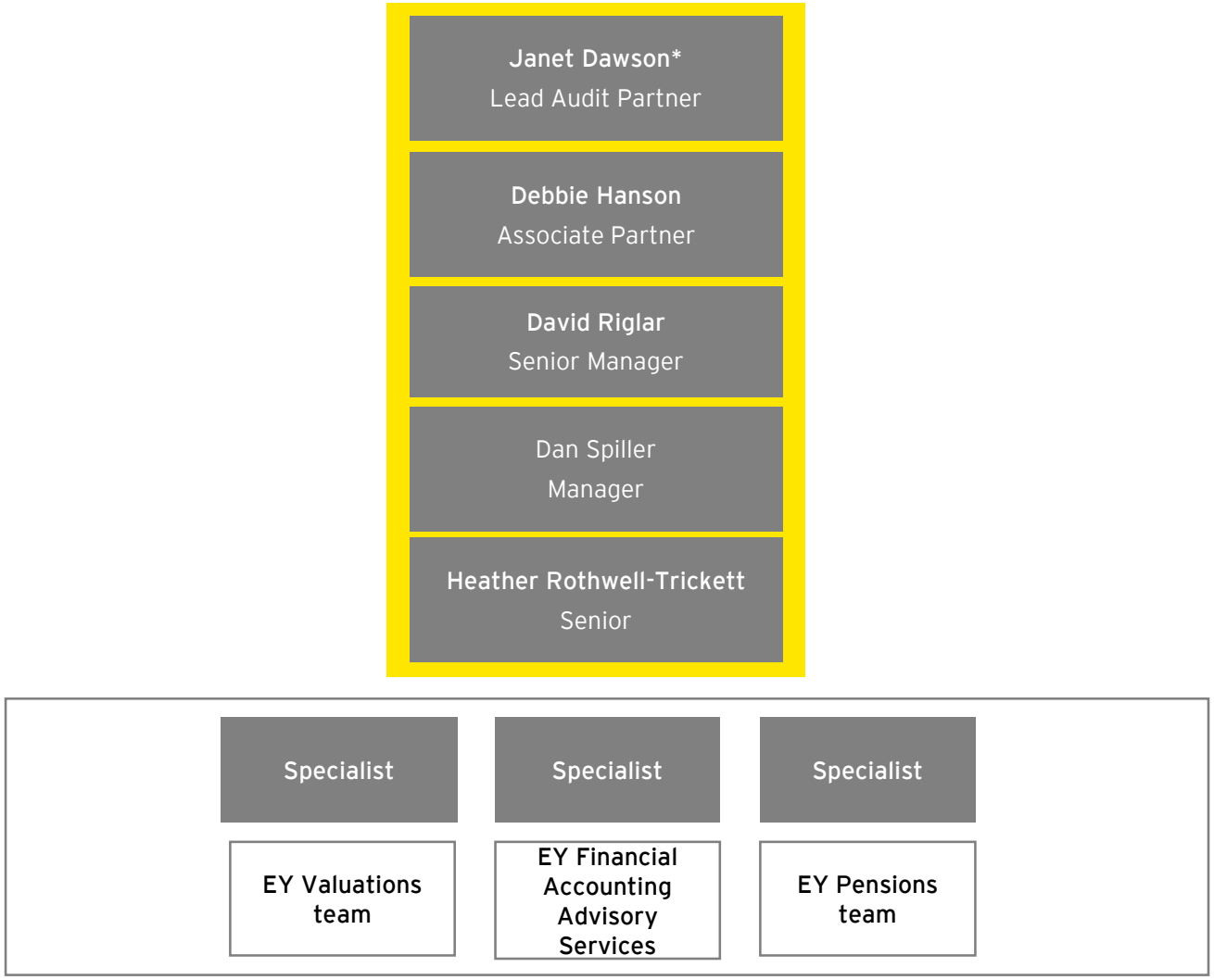
We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee .

Internal audit:
We will liaise with Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:



* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team, Northamptonshire County Council external valuers
Pensions disclosure	EY Actuaries / PwC/ Council's actuaries (Hymans Robertson)
PFI	EY Internal PFI Specialist
MRP calculation	EY internal MRP specialist
Fair Value Investment Measurement	Link

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Trust's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	April		
Walkthrough of key systems and processes	May		
Year end audit Audit testing	June		
Year end audit Audit testing	July	Audit Committee	Audit Planning Report
Year end audit Audit Completion procedures	August		
Year end audit Audit Completion procedures	September	Audit Committee	Audit Results Report

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
➢ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ➢ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ➢ The overall assessment of threats and safeguards; ➢ Information about the general policies and process within EY to maintain objectivity and independence. ➢ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	➢ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ➢ Details of non-audit services provided and the fees charged in relation thereto; ➢ Written confirmation that the firm and each covered person is independent and, if applicable, that any external experts used have confirmed their independence to us; ➢ Written confirmation that all covered persons are independent; ➢ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ➢ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ➢ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is 0%. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of Northamptonshire County Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020): https://www.ey.com/en_uk/who-we-are/transparency-report-2020

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	2019/20	2018/19
	£	£
Scale Fee – Code work	105,998 (note 1)	105,998
Scale Fee Variation submitted to PSAA	TBC	692,126
Other non-audit services	0	0
Total fees	TBC	798,124

All fees exclude VAT

The fee presented is based on the following assumptions:

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

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

For 2018/19 Code work we agreed with PSAA that we will agree an amended scale fee to reflect the level of additional risk in the audit. We have estimated this amended scale fee based on the overall level of increased risk as well the specific risks we identified. Based on the level of risk identified and difficulties encountered we have submitted the fee in the table to PSAA for their approval; this was done following agreement with the Council section 151 officer and commissioners.

For 2019/20, we will follow the same process. The indications, from our preliminary procedures and the start of our fieldwork, that there will be substantially less time required to complete the audit that for the prior period. We still expect to be required to submit a variation and will keep officers and the committee up to date with how our time analysis progresses.

We have set out on the next page some of the key risks which we have identified at planning stage will result in additional work and therefore an increase in the fee. Additional issues may be identified during the course of the audit which will impact on the fee.

Fees (continued)

The issues we have identified at the planning stage which will impact on the fee include:

- Due to the high volume of errors and issues encountered in 2018/19, our Tolerable Error threshold, the level that directs our sample sizes, will remain at 50% of Planning Materiality. This is consistent with the prior year, but for many audits we retain the option to increase this threshold and, as such, reduce our sample sizes.
- The need for the appointment of a Partner as the Engagement Lead on the audit as well as an Associate Partner and Senior Manager. This is to reflect the risk profile and the complexity of the issues expected on the audit as well as the expected volume of work and senior management engagement.
- The need for the appointment of a Partner as Engagement Quality Reviewer to reflect the risk profile.
- The need for additional internal consultation in relation to higher risk areas of the audit such going concern assessment and disclosures and the value for money conclusion.
- Additional work required by the engagement team to address the significant and inherent risks identified in this Plan:
  - Valuation of land and buildings and investment properties
  - Risk of fraud in revenue and expenditure recognition
    - Inappropriate capitalisation of revenue expenditure
    - Inappropriate classification of expenditure as revenue expenditure funded by capital under statute
    - Incorrect application of cut-off
- Additional work, including the use of EY specialists to review the following areas:
  - Valuation of land and buildings and investment properties
  - Valuation of the net pension liability
  - MRP policy
- Additional work to address the value for money risks identified.
- Additional work to address the impact of Covid-19 on the disclosures in the Council's accounts related to going concern and events after the balance sheet date. In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee**.**

		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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	➢ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ➢ Significant difficulties, if any, encountered during the audit ➢ Significant matters, if any, arising from the audit that were discussed with management ➢ Written representations that we are seeking ➢ Expected modifications to the audit report ➢ Other matters if any, significant to the oversight of the financial reporting process	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ➢ Whether the events or conditions constitute a material uncertainty ➢ 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	Audit results report
Misstatements	➢ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ➢ The effect of uncorrected misstatements related to prior periods ➢ A request that any uncorrected misstatement be corrected ➢ Corrected misstatements that are significant ➢ Material misstatements corrected by management	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	➢ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ➢ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ➢ A discussion of any other matters related to fraud	Audit results report
Related parties	➢ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ➢ Non-disclosure by management ➢ Inappropriate authorisation and approval of transactions ➢ Disagreement over disclosures ➢ Non-compliance with laws and regulations ➢ Difficulty in identifying the party that ultimately controls the entity	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ➢ The principal threats ➢ Safeguards adopted and their effectiveness ➢ An overall assessment of threats and safeguards ➢ Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report Audit results report
External confirmations	➢ Management's refusal for us to request confirmations ➢ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	➢ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ➢ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report
Internal controls	➢ Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	➢ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	➢ 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 planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	➢ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ➢ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Northamptonshire County Council's internal control. ➢ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ➢ Concluding on the appropriateness of management's use of the going concern basis of accounting. ➢ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ➢ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Northamptonshire County Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ➢ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on Northamptonshire County Council's financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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Northampton Borough Council

Audit Planning Report

Year ended 31 March 2020

June 2021

Building a better working world

June 2021

West Northamptonshire Council
One Angel Square
Angel Street
Northampton
NN1 1ED

Dear Audit and Governance Committee Members

Audit Planning Report

We are pleased to provide our Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor of the now demised entity of Northampton Borough Council for the financial year ended 31st March 2020. Its purpose is to provide the Audit and Governance Committee (of its successor body) with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd., auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Northampton Borough Council for the fiscal year 2019/20, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Governance Committee and management, and 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 on 28 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

For and on behalf of Ernst & Young LLP

Contents

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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of West Northamptonshire Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of West Northamptonshire Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of West Northamptonshire Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 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 audit and any changes in risks identified for 2019/20.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from prior year	Details
Misstatements due to fraud or error	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.
Risk of fraud in revenue and expenditure recognition: Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. For the Council, we consider this risk most likely to manifest through incorrect capitalisation of amounts which should be charged to the Comprehensive Income and Expenditure Statement (CIES) as expenditure.
Valuation of land and buildings, other than council dwellings	Significant risk	No change in risk Decrease in number of areas of focus	Land and buildings are significant assets on the Council's Balance Sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements. For 2019/20, we exclude council dwellings from the scope of our risk as our work over council dwellings in the prior year found no issues and the Council has not changed the external valuer for council dwellings from the prior year.
Valuation of defined benefit pension liability	Inherent risk	No change in risk or focus	The defined benefit pension liability is one of the most significant liabilities on the Council's Balance Sheet. The assessment of the present value of future obligations requires detailed actuarial calculations. Small changes in the assumptions used for the calculations can have a significant impact upon the financial statements.

Overview of our 2019/20 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from prior year**	**Details**
Implementation of the Governance Action Plan	Significant value for money risk	**No change in risk** **Change in focus**	In September 2013, the Authority advanced a loan to Northampton Town Football Club of £10.25m to carry out works to improve stadium facilities and develop a hotel. The money was passed to a third party developer and concerns about the recoverability of the loan resulted in the full loan balance being written-off during the year to 31 March 2016. In December 2016, the Authority's internal auditor issued a report into the circumstances of the loan which raised a number of concerns over failings in the systems of governance and internal control. In response, the Authority produced a Governance Action Plan containing a number of actions to address the governance and internal control issues raised. During 2018/19, management adopted a less formal approach to addressing the remaining actions and formally closed the Governance Action Plan in September 2018 with several actions either outstanding or implemented in a manner which we were unable to conclude as embedded within the organisation. As a result, we were unable to conclude that that the necessary improvements in governance and internal controls were fully embedded throughout the year ended 31 March 2019 and we issued a qualified VFM opinion. Our audit work over this VFM risk during our 2018/19 audit also covered the period to March 2021, where we noted there was limited additional progress during 2019/20.

We have not recognised the following risks which were recognised in the prior year:

- **Implementation of new accounting standards – IFRS 9 and IFRS 15** - we no longer consider this to be a risk as the changes took place in 2018/19 and the risk was specific to that financial year;
- **Contracts and procurements** – we no longer consider this to be a risk as our work over this risk during our 2018/19 audit identified no significant findings and our planning procedures have not identified any particular contracts or procurements during 2019/20 which we consider to be of increased risk;
- **Football club loan (VFM risk)** – the ongoing relevance to our 2019/20 audit of the football club loan is predominantly related to the resulting Governance Action Plan, as the loan itself was written off in previous years, therefore we have combined this risk into the above risk to avoid duplication; and
- **Financial resilience** – we no longer consider this to be a risk as our work over this risk during our 2018/19 audit found no concerns over the Council's budget setting and monitoring processes, the Council had a healthy financial position and recorded only a small overspend for the year to 31 March 2020.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality
£2.2m

Materiality has been set at £2.2m, which represents 1% of the gross expenditure on provision of services per the draft financial statements presented for audit. Note for the purposes of determining materiality we consider certain elements of financing and investment income, such as interest cost and return on plan assets for pensions, on a net basis whilst the financial statements present these amounts gross.

Performance materiality
£1.1m

Performance materiality has been set at £1.1m, which represents 50% of materiality.

Audit differences
£0.11m

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, housing revenue account and collection fund) greater than £0.11m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Northampton Borough Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

- Our conclusion on 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 are required to 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 the Council.

Taking the above into account, and as articulated in this Audit Planning Report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent 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, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Northampton Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
Misstatements due to fraud or error*	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	▸ Identifying fraud risks during the planning stages of our audit; ▸ Inquire of management about risks of fraud and the controls put in place to address those risks; ▸ Understand the oversight given by those charged with governance of management's processes over fraud; ▸ Consider the effectiveness of management's controls designed to address the risk of fraud; ▸ Determine an appropriate strategy to address those identified risks of fraud; and ▸ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition: Inappropriate capitalisation of revenue expenditure*

Financial statement impact

Misstatements that occur in relation to the risk of inappropriate capitalisation of revenue expenditure could affect the expenditure and PPE accounts. These accounts have the following balances in the published draft 2019/20 financial statements:

Expenditure Account: £297m*

PPE: £748m

* Figure amended to £234m in the revised draft provided for audit following completion of our 2018-19 audit.

What is the risk?

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.

For the Council, we consider this risk most likely to manifest through incorrect capitalisation of amounts which should be charged to the Comprehensive Income and Expenditure Statement (CIES) as expenditure. This may occur through:

- Inappropriate recognition of capital grants and contributions against revenue expenditure; and
- Inappropriate capitalisation of revenue expenditure.

What will we do?

- Test a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions;
- Test a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it meets the criteria set down in governing regulations;
- Test a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards.

Our response to significant risks (continued)

Valuation of land and buildings, other than council dwellings

Financial statement impact

Misstatements that occur in relation to the risk of valuation of land and buildings, other than council dwellings will affect the PPE, investment properties and heritage assets balances and the related gain or loss to the Comprehensive Income and Expenditure Statement or Revaluation Reserve.

These accounts have the following balances in the published draft 2019/20 financial statements:

Land and buildings (PPE): £96m

Investment Properties: £25m

Heritage Assets: £7m

What is the risk?

Land and buildings are significant assets on the Council's Balance Sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.

For 2019/20, we exclude council dwellings from the scope of our risk as our work over council dwellings in the prior year found no issues and the Council has not changed the external valuer for council dwellings from the prior year.

In addition, in-line with guidance issued by the Royal Institution of Chartered Surveyors (RICS) the Council's external valuer has provided their valuation of the Council's land and buildings at 31 March 2020 on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

The extent of the additional uncertainty will depend upon the valuation approach adopted for individual assets, with higher uncertainty expected in valuations which are based upon future rental yields or sale prices and lower uncertainty in valuations which are based upon replacement cost.

Management will need to include disclosures within the financial statements to inform the users of the financial statements of the material valuation uncertainty.

What will we do?

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Utilise EY Real Estate, our internal specialists on asset valuations, to review the external valuer's valuation of a sample of assets we consider at higher risk of misstatement;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Test accounting entries have been correctly processed in the financial statements; and
- Review the financial statement disclosures to ensure that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of defined benefit pension liability The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. This balance in the published draft 2019/20 financial statements totalled £128 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the Council's actuary. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	▸ Liaise with the audit team of the Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Northamptonshire Borough Council. Note that the audit of the Pension Fund is also performed by EY; ▸ Assess 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 National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

03 Value for money risks

Value for money

Background

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

For 2019/20 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 the Council's arrangements to:

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

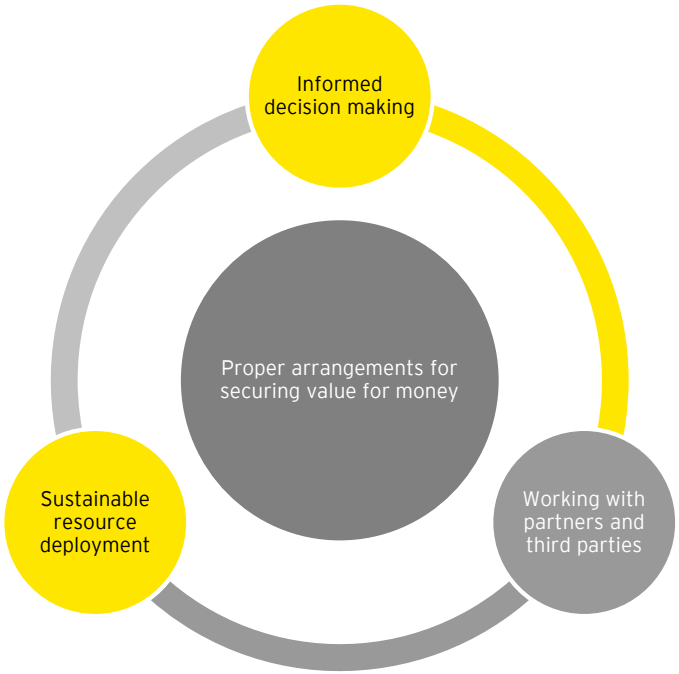
In considering the Council's proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that the Council is already required to have in place and to report on through documents such as the annual governance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

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.



Value for money risks

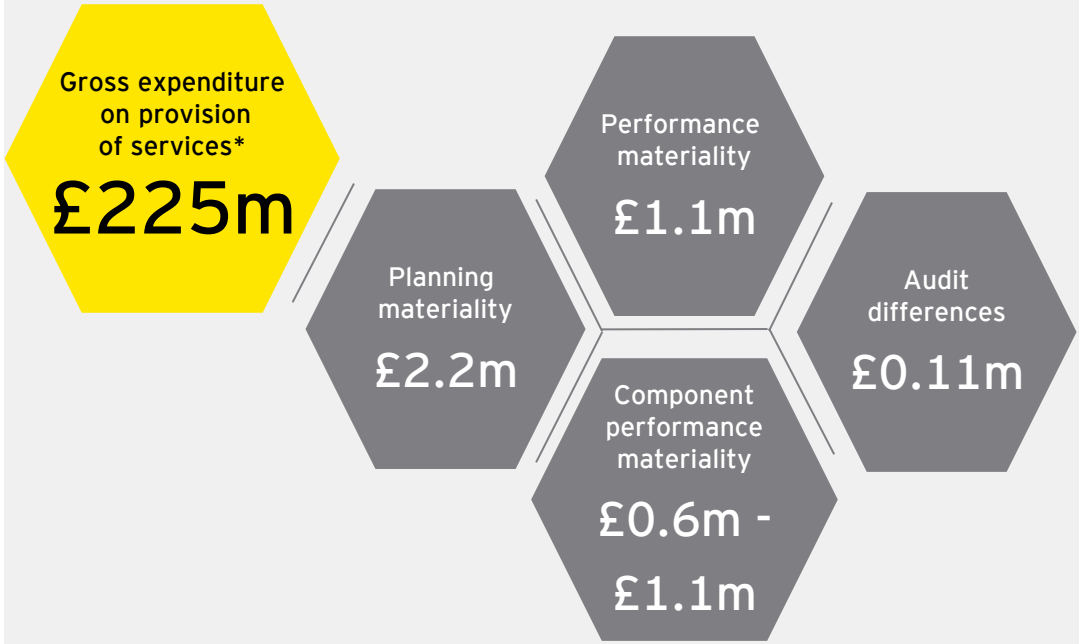
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Implementation of the corporate governance plan	Take informed decisions	Our audit work over this VFM risk during our 2018/19 audit also covered the period to March 2021, where we noted there was limited additional progress during 2019/20. Our approach will therefore focus on: • Confirming our understanding of the actions taken by management during 2019/20; and • Considering the implications for our value for money opinion.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £2.2m. This represents 1% of the gross expenditure on provision of services per the draft financial statements presented for audit*. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



* Note for the purposes of determining materiality we consider certain elements of financing and investment income, such as interest cost and return on plan assets for pensions, on a net basis whilst the financial statements present these amounts gross.

We request that the Audit and Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.1m which represents 50% of planning materiality. We have used a 50% threshold as we identified a number of misstatements in the prior year.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. We have determined performance materiality as £1.1m for the core Council and £0.6m for Northampton Partnership Homes.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Governance Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of nil for remuneration disclosures, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

05 Scope of our audit

Our audit process and strategy

Objective and Scope of our Audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

Our audit process and strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit

We held discussions with the internal auditor of the Council prior to the Council's demise, and will review the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements; or

2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes that we have determined are set out below. Note that these apply only for the purposes of the consolidated financial statements.

Northampton Borough Council	Full Scope
Northampton Partnership Homes Limited	Specific Scope

Scope definitions

Full scope: components where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. In this case, the procedures performed will also support our opinion on the Council's stand-alone financial statements.

Specific scope: components where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts. For Northampton Partnership Homes Limited, our planning procedures have identified the following accounts as material to the Group financial statements:

- Cash and cash equivalents;
- Creditors; and
- Defined-benefit pension liability

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We will issue instructions to Mazars, the auditor of Northampton Partnership Homes Limited, setting out the information that we require from them to support our work on the group audit opinion. We note that Mazars completed their audit of the stand-alone 2019-20 financial statements of Northampton Partnership Homes Limited in July 2020.

06 Audit team

Audit team

The engagement team is led by Janet Dawson, who will have responsibility for ensuring that our audit delivers high quality and value to the Council.

Mark Rutter will be the manager responsible for the day-to-day direction of audit work and is the key point for contact for the finance team.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of land and buildings	Wilks Head & Eve LLP (management's valuation specialists) EY Valuations Team
Pensions disclosure	Hymans Robertson (management's actuarial specialists) EY Actuaries

In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

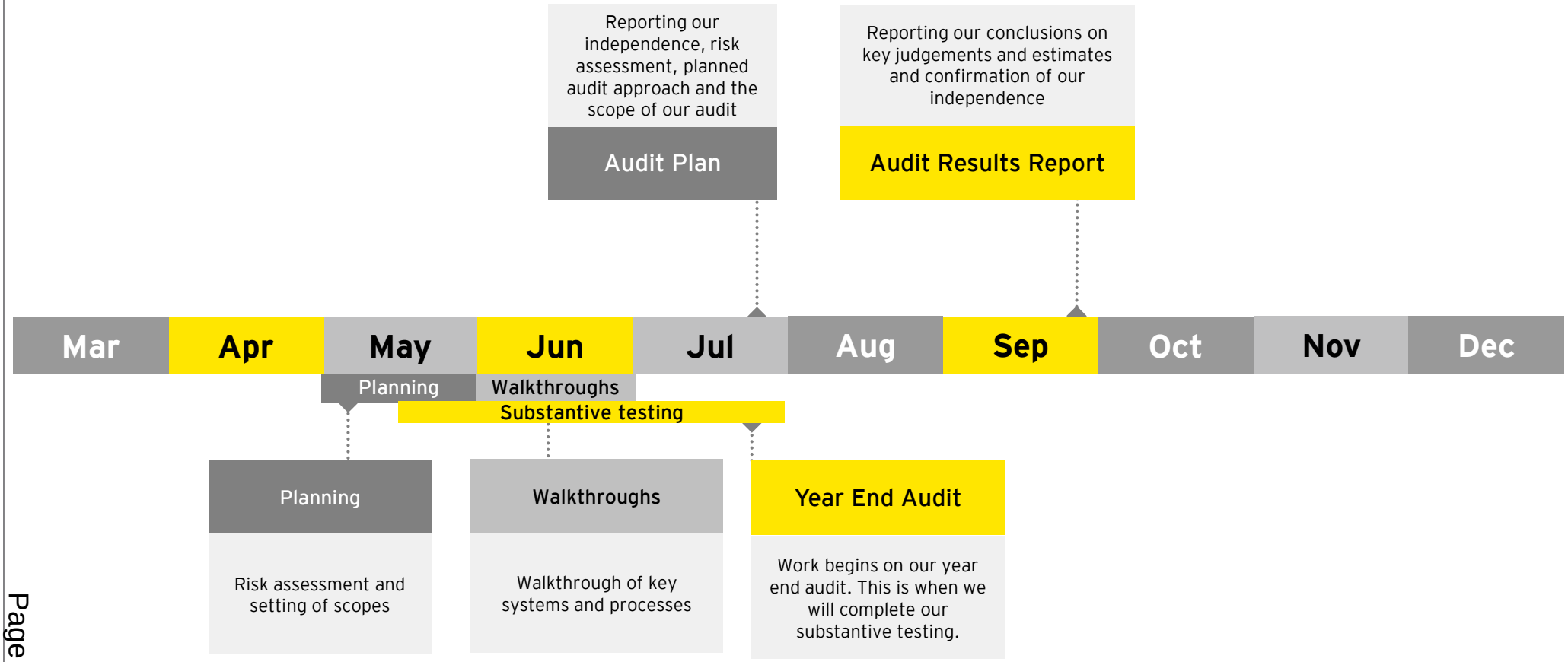
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence; and ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Nicola Wright, your audit engagement associate partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standard or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not provide any non-audit services and therefore receive no non-audit fees.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC's Ethical Standard to UK PIEs and their worldwide affiliates;
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services;
    - Remuneration advisory services;
    - Internal audit services; and
    - Secondment/loan staff arrangements;
- An absolute prohibition on contingent fees;
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
- Permitted services required by law or regulation will not be subject to the 70% fee cap;
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- A requirement for the auditor to notify the Audit and Governance Committee where the audit fee might compromise perceived independence and the appropriate safeguards;
- A requirement to report to the Audit and Governance Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2020:

EY UK Transparency Report 2020 | EY UK

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Base scale fee	62,197	62,197	62,197
Increase for changes in risk and regulatory environment [notes 1,3]	93,346	-	93,346
Revised base fee	**155,543**	**62,197**	**155,543**
Additional audit fee for response to specific audit findings [notes 2,3]	TBC	-	261,457
Total audit fee	**TBC**	**62,197**	**417,000**
Non-audit services	-	-	-
Total fees	**TBC**	**62,197**	**417,000**

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

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

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Notes

1) We wrote to management and the Northampton Borough Council Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice, are all shaping the future of local audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors. In continuing to respond to these factors we are required to seek higher levels of corroborative evidence, including increasing sample sizes and engage with our internal specialists more extensively and on a wider array of matters. Additionally, we need to continue to increase our investment in data analytics tools to allow us to test more transactions to a greater level of detail and enhance audit quality. To support the increasing regulatory focus, we have to continue to invest in our audit quality infrastructure; for example our compliance costs have doubled over the past five years.

2) Where we identified significant risks and other areas of audit focus as part of our 2018/19 audit, as reported to the Northampton Borough Council Audit Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. This work was over and above that assumed in the scale fee.

3) We have held discussions with management in respect of our audit fees but have not been able to reach agreement on the additional fee amounts. We will therefore submit our proposals to Public Sector Audit Appointments (PSAA) and ask them to make a determination as to the additional fee to be charged.

Appendix B

Required communications with the Audit and Governance Committee

We have detailed below the communications that we must provide to the Audit and Governance Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The Statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The Statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report (this report)
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▸ Significant difficulties, if any, encountered during the audit; ▸ Significant matters, if any, arising from the audit that were discussed with management; ▸ Written representations that we are seeking; ▸ Expected modifications to the audit report; and ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report (September 2021)

Required communications with the Audit and Governance Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty; ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▸ The adequacy of related disclosures in the financial statements	Audit Results Report (September 2021)
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▸ The effect of uncorrected misstatements related to prior periods; ▸ A request that any uncorrected misstatement be corrected; ▸ Corrected misstatements that are significant; and ▸ Material misstatements corrected by management	Audit Results Report (September 2021)
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▸ A discussion of any other matters related to fraud	Audit Results Report (September 2021)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management; ▸ Inappropriate authorisation and approval of transactions; ▸ Disagreement over disclosures; ▸ Non-compliance with laws and regulations; and ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report (September 2021)

Required communications with the Audit and Governance Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats; ▸ Safeguards adopted and their effectiveness; ▸ An overall assessment of threats and safeguards; and ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report (this report); and Audit Results Report (September 2021)
External confirmations	▸ Management's refusal for us to request confirmations; and ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report (September 2021)
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Results Report (September 2021)
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report (September 2021)

Required communications with the Audit and Governance Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components; ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components; ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work; ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted; and ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Planning Report (this report); and Audit Results Report (September 2021)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (September 2021)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (September 2021)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (September 2021)
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed; ▸ Breakdown of fee information at the completion of the audit; and ▸ Any non-audit work	Audit Planning Report (this report); and Audit Results Report (September 2021)

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control; ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management; ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting; ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Northampton Borough Council- External Audit Planning Report Year Ending 2019/20**
Report Author	Debbie Middleton – Interim AD Sovereign Accounts Closure (NCC/NBC/NFRA) – Debbie.Middleton@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	Via Geoff Wild 29/6/21
West S151	Martin Henry	28/6/21
Other Director/SME	Audra Statham	29/6/21

List of Appendices

Appendix A – Northampton BC Ernst & Young Audit Planning Report– Year End 31 March 2020.

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to update the Committee in relation to the audit plan for the audit of the Northampton Borough Council 2019/20 Statement of Accounts.

2. Executive Summary

2.1 Ernst & Young LLP (EY LLP) was appointed as the external auditor for Northampton Borough Council from the 2018/19 financial year through to the 20/21 financial year. The external auditor is required to update this Committee in relation to the audit plan for 2019/20. The audit is in progress and is currently on track for EY LLP to report the audit findings in September 2021. The audit planning report is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2019/20 Audit Planning report for Northampton Borough Council.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's audit planning report at appendix A sets out:

- The overall strategy for the audit
- Audit risks
- Value for Money risks
- Audit materiality
- Scope of the Audit
- Overview of the audit team
- Overview of the audit timeline
- Independence statement
- Appendices detailing audit fees, required communications with the Committee and other audit information.

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate the audit plan to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**South Northamptonshire Council - External Audit Planning Report Year Ending 2020/21**
Report Author	Audra Statham – AD Finance (Accountancy) audra.statham@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	19.07.2021
West S151	Martin Henry	19.07.2021
Other Director/SME	Audra Statham	19.07.2021

List of Appendices

Appendix A – South Northamptonshire Ernst & Young Audit Planning Report– Year End 31 March 2021.

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to update the Committee in relation to the audit plan for the audit of the South Northamptonshire Council Statement of Accounts.

2. Executive Summary

2.1 The external auditor is required to update this Committee in relation to the audit plan for 2020/21. The audit is in progress and is currently on track for EY LLP to report the audit findings in September 2021. The audit planning report is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2020/21 Audit Planning report for South Northamptonshire Council.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's audit planning report at appendix A sets out:

- The overall strategy for the audit
- Audit risks
- Value for Money risks
- Audit materiality
- Scope of the Audit
- Overview of the audit team
- Overview of the audit timeline
- Independence statement
- Appendices detailing audit fees, required communications with the Committee and other audit information.

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate the audit plan to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

South Northamptonshire District Council
Audit Planning Report

Year ended 31 March 2021

15 July 2021

Building a better working world

15 July 2021

South Northamptonshire Council
The Forum
Moat Lane
Towcester
NN12 6AD

Dear Committee Members

Indicative Audit Planning Report

We are pleased to attach our Indicative Audit Plan which 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 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and it outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Governance Committee and management, and 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 on 28 July 2021 as well as to understand whether there are any other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley

For and on behalf of Ernst & Young LLP

Contents

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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of South Northamptonshire Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of South Northamptonshire Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of South Northamptonshire Council for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.

01 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	Risk identified	Change from PY	Details
Inappropriate capitalisation of revenue expenditure due to fraud or error	Fraud risk	No change in risk or focus	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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. Our judgement is the significant risk at the Council may manifest itself in the improper capitalisation of revenue expenditure.
Valuation of Land and Buildings and Investment Property	Significant risk	No change in risk or focus	The fair values of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and for PPE, depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 brought additional uncertainties around valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as at 31 March 2021.
Accounting for Covid-19 grants	Inherent risk	New area of focus	The Authority received a series of grants from UK central government during 2020/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a new and significant development for the Council.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire Pension Fund. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Northamptonshire Pension Fund 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. For 2020/21 the Council will need to consider the potential for the ongoing impact of the national issues arising from the Goodwin and McCloud cases.
Formation of West Northamptonshire Unitary Authority on 31 March 2021	Inherent risk	New area of focus	The demise of the Council on 31 March 2021 will affect staff capacity, with potential impact on its ability to produce a materially correct set of accounts. Also, in the approach to full unitary formation, there is a risk that focusing on the "shadow" unitary authority could have a negative impact on the production of the statements, working papers, and the running of the audit. The Council currently has the level of resource required to deliver the financial statements and to respond to the audit team during its visit in July and August. We will liaise as necessary as soon as we are aware of any issues which may need to be resolved. We are aware of the complexity of the changes across the local government area and will work as far as we can across audit teams e.g. on accruals and unrecorded liabilities. These areas will be ore complex and time-consuming to review than usual.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Going concern disclosure	Inherent risk	No change in risk or focus	There is a presumption that the Authority will prepare its accounts on a going concern basis as there is ongoing service provision from the successor body. However, the current and future uncertainty as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we request that management provide a documented consideration to support their assertion regarding the going concern basis.

Overview of our 2020/21 audit strategy

Materiality. We calculated materiality at the planning stage using the 2019-20 financial statements (see figures in brackets) but as we will now be performing a single-visit audit, we have updated it using figures from the draft 2020-21 statements.

Planning materiality

£855k

Materiality for the group has been set at £855K (£769K), which represents 2% (PY 2%) of the prior year gross revenue expenditure. This comprises of gross expenditure on the provision of services, other operating expenditure and financing and investment expenditure.

Performance materiality

£641k

Performance materiality has been set at £641K (£576K), which represents 75% (PY 75%) of planning materiality.

Audit differences

£43k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £43K (£38K). This represents 5% of Planning Materiality (PY 5%). Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of South Northamptonshire Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

- Our commentary against specified reporting criteria (see Section 03) on the Council's arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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 the Council. The extent of our procedures will depend on the materiality of the Council's balances for the Whole of Government Accounts.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to assess independently the risks of providing an audit opinion, and to undertake appropriate procedures in response. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent 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 up to date with the changing requirements of external audit with increased focus on, for example, valuations of PPE and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors affecting the value for money conclusion. In Section 09 we have highlighted where additional work will be required for 2020/21 at this stage. We will discuss with management the associated fees as the audit progresses.

02 Audit risks

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*	What is the risk?	What will we do?
Financial statement impact Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.	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. We identify and respond to this risk on every audit engagement.	▸ Inquire of management about risks of fraud and the controls put in place to address those risks. ▸ Understand the oversight given by those charged with governance of management's processes over fraud. ▸ Consider of the effectiveness of management's controls designed to address the risk of fraud. Perform mandatory procedures regardless of specifically identified fraud risks, including: ▸ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▸ Assessing accounting estimates for evidence of management bias, and ▸ Evaluating the business rationale for significant unusual transactions. We will utilise our data analytics capabilities to assist with our work.

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate capitalisation of revenue expenditure due to fraud or error*

Financial statement impact

Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What is the risk?

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.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

What will we do?

Our approach will focus on:

- For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.

- Journal testing – we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of Land and Buildings – Property, Plant and Equipment (PPE) and Investment Property (IP)	What is the risk?	What will we do?
Financial statement impact Misstatements that occur in relation to valuation could affect the year end carrying value of PPE and IP (31 March 2020: £24.2 m and £1.4 m, respectively). The equivalent figures in the draft 20/21 financial statements are £24.9m and £1,4m.	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as of 31 March 2021. The significant risk is therefore specific to the valuation assertion.	We will: ► Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ► Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ► Consider 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 and any significant changes notified to the valuer; ► Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; ► Consider changes to useful economic lives as a result of the most recent valuation; ► Consider the potential impact of Covid-19 on valuation uncertainties; and ► Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
New central government grants and other Covid-19 funding streams. Central Government has provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies. The Council needs to review each of these grants to establish how they should be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the council is a principal, it must also assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.	On a sample of the grant and funding population we will: • Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; • Review whether any initial conditions are attached to grants impacting their recognition; • Assess whether the accounting appropriately follows those judgements; and • Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire Pension Fund The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £39.3 million. The draft 20/21 financial statements show a figure of £50.3 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary of the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	▸ Liaise with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Northamptonshire Council; ▸ Assess 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 National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; ▸ Consider any updated information in respect of the impact of national issues including Goodwin and McCloud; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements for IAS19.

Other areas of audit focus

We have identified other areas of the audit not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures. These may be key audit matters which we will include in our audit report.

What is the risk/area of focus?	What will we do?
Formation of West Northamptonshire Council and demise of South Northamptonshire Council on 31 March 2021. The demise of the Council on 31 March 2021 will affect its staff capacity, with potential impact on its ability to produce a materially correct set of accounts. Also, in the approach to full unitary formation, there is a risk that focusing on the "shadow" unitary authority could have a negative impact on the production of the statements, working papers, and the running of the audit. The Council currently has the level of resource required to deliver the financial statements and to respond to the audit team during its visit in July and August. However, there is very little room for manoeuvre in these arrangements should any key individuals leave their roles in the meantime. This is a challenge which is exacerbated by the working restrictions brought in as a result of the COVID outbreak. Note that we are also dependent on the above not having a detrimental impact on the Northamptonshire Pension Fund audit and the auditors' ability to complete IAS 19 assurances. We appreciate the flexibility shown to date by Council staff. Both EY and the Council need to ensure that necessary resources are available to deliver the audit by early September at the latest.	We will: ▸ Prioritise the complex and time-consuming areas of the audit ▸ Work across the three relevant audit teams (including Daventry and Northampton) as far as possible where testing necessitates involving the successor body, West Northamptonshire, as they will have the ledger w.e.f. 1 April 2021 (this is likely to affect unrecorded liabilities and year-end cut-off) ▸ Liaise as soon as we aware of any potential delays

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Disclosures on Going Concern There is a presumption that although the Authority is demising, it will meet the requirements of going concern through passing its services on to West Northamptonshire as successor body. However, the Authority is still required to carry out a going concern assessment proportionate to the risks it faces. In light of the continued impact of Covid-19 on its income sources, the Authority needs to ensure that its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. The Authority is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment, and in particular highlights any uncertainties it has identified. We consider the unpredictability of the current environment to give rise to a risk that the Authority will not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19.	‣ Assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate; ‣ Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts; ‣ Review the financial modelling and forecasts prepared by the Authority. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion; ‣ Ensure that an appropriate going concern disclosure has been made within the financial statements; and ‣ Considere the impact on our audit report and comply with EY consultation requirements, if this is determined to be appropriate.

03 Value for Money risks

Value for Money

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

The Authority must maintain an effective system of internal controls that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing this statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and taking into account any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor's responsibilities under the new Code

Under the 2020 Code of Audit Practice we must still consider whether the Authority has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer an overall evaluation criterion on which we need to conclude. Instead the 2020 Code requires auditors to design their work so as to get enough assurance to report to the Authority a commentary against specified reporting criteria (see below) on its arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence for us to document our evaluation of the Authority's Arrangements. This is so that we can draft a commentary under the three reporting criteria. It includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors (as part of planning) to consider the risk of reaching an incorrect conclusion for the overall criterion.

In considering the Authority's arrangements, we must consider:
- The Authority's governance statement
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that assessing what constitutes a significant weakness, and how much extra audit work is needed to respond to the risk of a significant weakness, is a matter of professional judgement.

Value for Money

Planning and identifying VFM risks (continued)

However, the NAO states that a weakness may be said to be significant if it:
- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also consider:
- The scale of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made, including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and to undertake additional procedures as necessary. This includes challenge of management's assumptions where necessary. We are required to report our planned procedures to the Audit and Governance Committee.

Reporting on VFM

As well as the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness, the 2020 Code has the same requirement as the 2015 Code, that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the attention of the Authority or the wider public. This should include details of any audit recommendations and follow-up of previous recommendations, along with our view as to whether they have been implemented. satisfactorily.

Status of our 2020/21 VFM planning

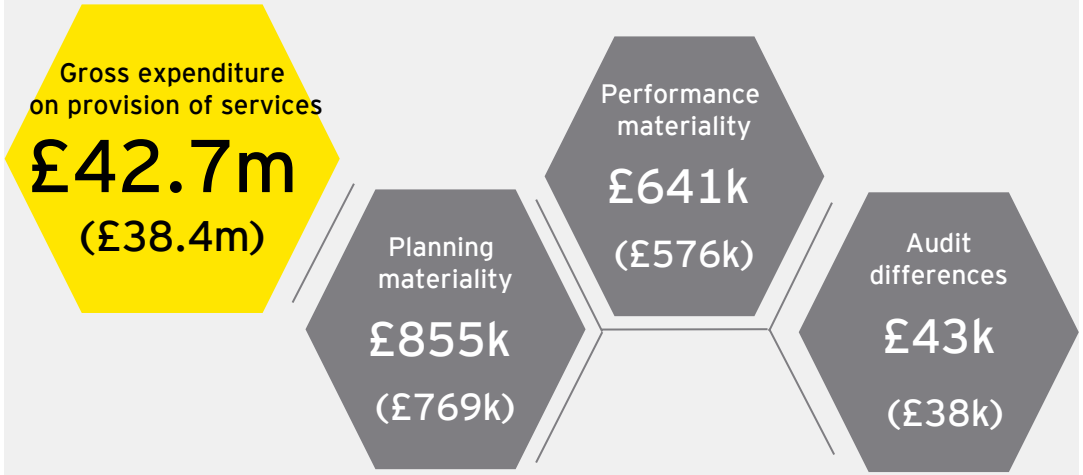
We have yet to finalise our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has in place for financial sustainability in light of the impact of Covid-19. We will continue to update the Audit and Governance Committee on the outcome of our VFM planning, any changes to our risk assessment, and our planned response to any identified risks of significant weaknesses in arrangements.

04 Audit materiality

Materiality

Materiality –South Northamptonshire Council Group

For 2020/21 audit purposes, we are using materiality derived from the draft financial statement, which was set at £855K. This represents 2% of the prior year gross revenue expenditure on provision of services. It will be reassessed during the audit process (at the planning stage we used materiality derived from the audited 2019/20 statements, see figures in brackets). We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality for the Group at £641k, which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income. The threshold has been set at 5% of planning materiality.

Other uncorrected misstatements, such as reclassifications and misstatements in the cash flow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit and accounts committee, or are important from a qualitative perspective.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period, to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements to secure value for money through economic, efficient and effective use of resources

We are required to consider whether the Council has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded that this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of financial data, in particular journal entries. These tools:

- Help to identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

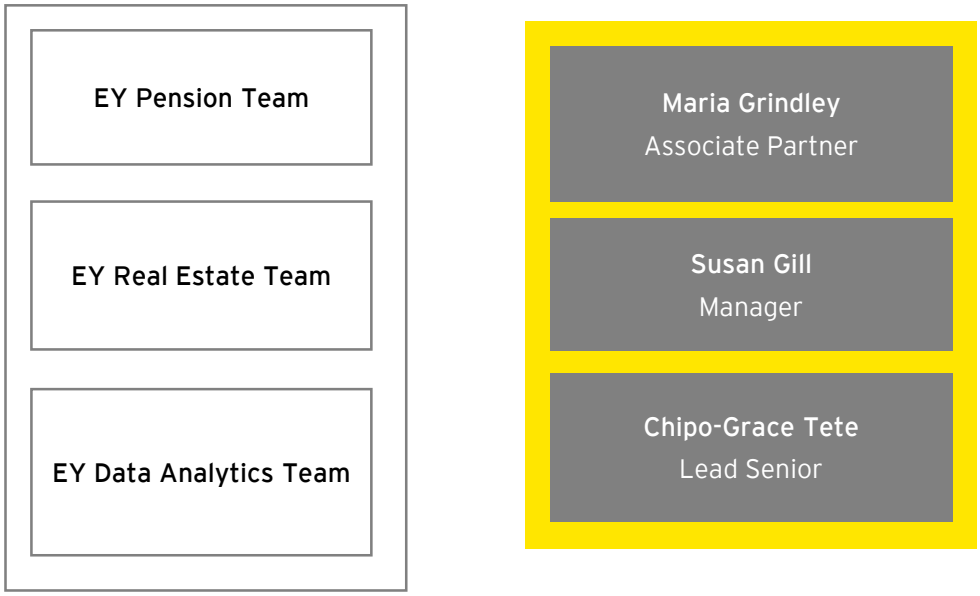
We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit:
As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where issues are raised that could have an impact on the year-end financial statements.

06 Audit team

Audit team

Audit team structure:



Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EYRE Real Estate Team
Pensions disclosure	EY Pension Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Accounts Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	May-July 2021	Audit and Governance Committee	Audit Planning Report
Year end audit	July-August 2021		
Audit Completion procedures	September 2021	Audit and Governance Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter to follow soon after the sign off

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner, and the audit engagement team have not been compromised.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we must discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self-interest threats at the date of this report

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm must publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Base Audit Fee – Code work (See Note 1)	TBC	32,812
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	TBC	37,877
Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation and VFM conclusion (Note 2)	TBC	18,693
Scale fee variation – impact of auditing demising body (Note 3)	TBC	
Total fees	**TBC**	**89,382**

All fees exclude VAT

Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.
2. The 2019/20 additional fees have been discussed with management and referred to PSAA for consideration.
3. Some standard audit tests for demising bodies take longer because of the need to look at successor body financial systems

The agreed fee presented is based on the following assumptions:

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

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with those charged with governance

We have detailed the communications that we must provide to the Audit and Governance Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Required communications (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ 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	Audit results report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report
Fraud	▸ Asking the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report

Required communications (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Asking the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Audit results report
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report

Required communications (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	▸ 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 planning report Audit results report

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Daventry District Council - External Audit Planning Report Year Ending 2020/21**
Report Author	Audra Statham – AD Finance (Accountancy) audra.statham@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	19.07.2021
West S151	Martin Henry	19.07.2021
Other Director/SME	Audra Statham	19.07.2021

List of Appendices

Appendix A 'TO FOLLOW' – Daventry District Ernst & Young Audit Planning Report– Year End 31 March 2021

1. Purpose of Report

1.1. The purpose of the report is for the External Auditor to update the Committee in relation to the audit plan for the audit of the Daventry District Council Statement of Accounts.

2. Executive Summary

2.1 The external auditor is required to update this Committee in relation to the audit plan for 2020/21. The audit is in progress and is currently on track for EY LLP to report the audit findings in September 2021. The audit planning report is attached for consideration at Appendix A and will be presented by the external auditor to the Committee.

3. Recommendations

3.1 It is recommended that the Committee note the 2020/21 Audit Planning report for Daventry District Council.

4. Reason for Recommendations

4.1 The reason for the recommendations is to accord with legislation and policies of the Council.

5. Report Background

5.1 The external auditor's audit planning report at appendix A sets out:

- The overall strategy for the audit
- Audit risks
- Value for Money risks
- Audit materiality
- Scope of the Audit
- Overview of the audit team
- Overview of the audit timeline
- Independence statement
- Appendices detailing audit fees, required communications with the Committee and other audit information.

6. Issues and Choices

6.1 No alternative options have been considered as the external auditor is required to communicate the audit plan to the Committee.

7. Implications (including financial implications)

7.1 **Financial** - There are no resource or financial implications arising from the report.

7.2 **Legal** - there are no legal implications arising from the report.

7.3 **Risk -** Not applicable.

7.4 **Consultation** – not applicable

7.5 **Consideration by Overview and Scrutiny –** Not applicable

7.6 **Climate Impact –** not applicable

7.7 **Community Impact –** not applicable

8. Background Papers

None

West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Northamptonshire Pension Fund Audit Plan 2020-21**
Report Author	**Fiona Coates, Pension Services Financial Manager,** Fiona.coates@westnorthants.gov.uk

Contributors/Checkers/Approvers		
West MO	Catherine Whitehead	19.07.2021
West S151	Martin Henry	15.07.2021

List of Appendices

Appendix A – Northamptonshire Pension Fund Audit Plan Year ended 31 March 2020 Author: Ernst & Young (EY)

1. Purpose of Report

1.1 To present the Audit and Governance Committee with the Audit Plan from Ernst & Young.

2. Executive Summary

2.1 Ernst & Young act as the Northamptonshire Pension Fund's external auditors. As the external auditors they have produced a plan of the upcoming audit of the Northamptonshire Pension Fund. This report asks the committee to note the content of that plan.

3. Recommendations

3.1 It is recommended that the Committee:

a) Note the Audit Plan 2020-21 and the presentation by Ernst & Young

4. Reason for Recommendations

- To accord with legislation or the policy of the Council

5. Report Background

5.1 The Pension Fund's Statement of Accounts (SOA) form part of the Council's Statement of Accounts. These are audited by the Council's external auditor Ernst & Young (EY). The auditor confirms whether, in their opinion, the SOA reflect a true and fair view of the financial position of the authority (and the Fund within it) for the financial year 1st April to 31st March and that the SOA is free from material misstatement.

6. Audit Plan

6.1 Ernst & Young (EY) have been appointed as Independent External Auditors to provide an audit opinion on:

6.1.1 whether the financial statements of Northamptonshire Pension Fund give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2021; and

6.1.2 the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Northamptonshire County Council.

6.2 EY have produced an audit plan, setting out identified audit risks, expected materiality levels, the scope of their audit and the planned delivery of the audit process. An Associate Partner from Ernst & Young, Mark Hodges, will attend this meeting to present the audit plan.

6.3 Page 5 of the accompanying report identifies the key risks and areas of auditor focus, and page 11 of the report details the Auditor's planned approach to these risk areas. These, along with the Fund's approach are summarised in the following table.

Risk/area of focus	Audit approach	Fund approach
Misstatements due to fraud or error	• Identify fraud risks at planning stage • Inquire of management how risks are mitigated by controls • Understand the level of oversight within processes • Consider effectiveness of controls • Use appropriate audit strategy to address risks identified	• Ensure process notes include identified risks • Provide written process notes which detail controls

Risk/area of focus	Audit approach	Fund approach
	• Perform mandatory procedures, including detailed testing	
Investment Income and Asset valuation – Investment Journals	• Test year end journals • Review reconciliations of Investment Manager to Custodian reports • Re-perform investment notes in Statement of Accounts • Check reconciliation of holdings in Net Assets Statement to source reports • Agree quoted investment income to source reports	• Make copy journals available • Provide quarterly reconciliation reports • Liaise with Investment Managers to provide information to auditors on a timely basis
Valuations of complex investments (Unquoted investments)	• Assess competence of management experts • Review the basis of valuation for property and unquoted investments and assess the appropriateness of valuation methods used • Review latest audited accounts and ensure no matters arise that highlight material differences • Perform analytical procedures and check valuation output for reasonableness	• Provide working papers demonstrating the value used at the year end and the valuation methodology • Provide quarterly reconciliation reports • Liaise with Investment Managers to provide information to auditors on a timely basis
IAS26 Disclosure – Actuarial Present Value of Promised Retirement Benefits	• Assess competence of management experts (Hymans) • Review IAS26 approach applied by the actuary are reasonable and compliant with IAS26 • Ensure IAS26 disclosure is in line with relevant standards and consistent	• Ensure process notes include identified risks • Provide written process notes which detail controls

Risk/area of focus	Audit approach	Fund approach
Going Concern	• Challenge management's identification of events or conditions impacting going concern • Test management's assessment of going concern • Review Fund's cash flow forecasts covering the foreseeable future • Consider all evidence obtained • Challenge disclosure made in accounts in respect of going concern and material uncertainties.	• Provide written process notes which detail controls • Provide evidence and cash flows for foreseeable future

6.4 Page 15 of the accompanying report sets out the planned materiality levels for the audit, based on 1% of net assets of £3.08bn, which are planned to be:

Audit Area	Materiality
Planning Materiality	£30.77m
Performance Materiality	£23.08m
Audit Differences	£1.54m

6.5 Page 23 of the accompanying report sets out the proposed timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Planning/Walkthroughs	June 2021 – July 2021	Ongoing
Report audit plan	July 2021	Completed
Substantive testing	June 2021 – September 2021	To be confirmed
Audit Results Report	June 2021 – September 2021	To be confirmed

7. Implications (including financial implications)

7.1 Resources and Financial

9.1.1 There are no resources or financial implications arising from the proposals.

7.2 Legal

9.2.1 There are no legal implications arising from the proposals.

7.3 **Risk**

7.3.1 There are no significant risks arising from this report.

7.3.2 The Fund's full risk register can be found on the Fund's website at the following link: Northamptonshire Pension Fund Risk Register

7.4 **Consultation**

7.4.1 The Pension Fund Accounts were produced utilising information and advice provided by Investment Managers, the Fund's Custodian Northern Trust and the Fund's Actuary, Hymans Robertson.

7.5 **Consideration by Overview and Scrutiny**

7.5.1 Not applicable

7.6 **Climate Impact**

7.6.1 There is no environmental impact from this report.

7.7 **Community Impact**

7.7.1 Not applicable

8. Background Papers

8.1 The Pension Fund Accounts are supported by a detailed set of working papers that are subject to examination as part of the External Audit review.

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Northamptonshire County Council Pension Fund

Audit planning report

Year ended 31 March 2021

2 July 2021

Building a better working world

Private and Confidential

Audit & Governance Committee
Northamptonshire County Council Pension Fund ("the Pension Fund")
One Angel Square
Angel Street
Northampton
NN1 1ED

2 July 2021

Dear Audit & Governance Committee Members,

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the 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 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks. We will provide an update to the Audit Plan if there are any changes to our risk assessment or planned audit approach as the audit progresses.

This report is intended solely for the information and use of the Committee, the Local Pension Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to share this report with you as well as understand whether there are other matters which you consider may influence our audit. We will formally present it to you in the Committee meeting on 28 July 2021.

Yours faithfully

Debbie Hanson

Debbie Hanson

For and on behalf of Ernst & Young LLP

Contents

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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Committee and management of the Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Committee, and management of the Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Committee and management of the Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 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 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	Risk identified	Change from PY	Details
Misstatements due to fraud or error - Incorrect posting of the valuations notified for investment assets	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. We have considered the key areas where management has the material opportunity and incentive to override controls. We have identified the Incorrect posting of the valuations notified for investment assets as a specific area where misstatements due to fraud may arise.
Valuation of complex investments	Significant risk	No change in risk or focus	We have identified the valuation of complex investment assets i.e. Level 3 investments, as a specific area where misstatements may arise and therefore a significant risk. The Fund holds £400 million of Level 3 investments, representing 13.3% of the total portfolio. Judgements are taken by the Investment Managers to value those investments where prices are not publicly available. The material nature of investments means that changes in assumptions can result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations can have a material impact on the financial statements. Covid has also created an uncertain economic environment from March 2020. As a result, the valuation of these complex investment assets as of 31 March 2021 are subject to increased estimation and potentially significant judgements as to the valuation method adopted.

Overview of our 2020/21 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Going concern assessment and disclosures	Higher inherent risk	No change in risk or focus	CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. There is therefore a presumption that the Pension Fund will continue as a going concern. However, the current uncertain economic environment as a result of Covid increases the need for the Pension Fund to undertake a detailed going concern assessment to support this assertion. International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, hence the Pension Fund's assessment will also need to cover this period. Therefore, the Pension Fund's going concern assessment and disclosure in the accounts will need to consider information relevant to potentially beyond the 2021/22 financial year to cover at least 12 months from the date of the report.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality
£30.77m

Consistent with our prior year's approach, we calculate our planning materiality as 1% of net assets (based on the current year draft accounts) of the Pension Fund.

Performance materiality
£23.08m

Performance materiality represents 75% of planning materiality, consistent year on year.

Audit differences
£1.54m

We will report all uncorrected misstatements relating to the primary statements (fund account and net assets statement) greater than £1.54 million. We will communicate other misstatements identified to the extent that they merit the attention of the Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Northamptonshire County Council Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; and

- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Northamptonshire County Council for the year ended 31 March 2021.

Our audit will also include the mandatory procedures that we are required to 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 the Pension Fund.

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent 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, the valuations of land and buildings, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years. Therefore to the extent any of these or any other risks are relevant in the context of Northamptonshire County Council Pension Fund's audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2020/21 audit strategy

Timeline

For 2020/21, the timetable as published in the draft Accounts and Audit (Amendment) regulations 2021 extends the publication date for audited local authority accounts from 31 July to 30 September. In Section 06 we therefore include a provisional timeline for the audit.

Whilst there is an ongoing impact of later deadlines and completion of audits from 2019/20, we have already started our detailed planning and final audit procedures for the 2020/21 audit. We set out in this Plan our initial considerations of the risks for the audit (refer Section 02), where we have slightly updated our risks assessment for the audit for 2020/21 as some of the risks we identified for 2019/20 are not applicable to the 2020/21 audit. We will continue to update our assessment of risks as our audit progresses and take into account any additional information of which we become aware.

Fees

We include further details on our proposed fees for 2020/21 in Section 08.

02 Audit risks

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error - Incorrect posting of the valuations notified for investment assets

What is the risk?

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.

We have considered the key areas where management has the material opportunity and incentive to override controls. We have identified the Incorrect posting of the valuations notified for investment assets as a specific area where misstatements due to fraud or error may arise.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

We will undertake additional procedures to address the specific risks we have identified relating to incorrect posting of journals relating to investment income and assets, which consist of:

- Reviewing reconciliations to the fund manager, custodian and valuer reports and investigating any reconciling differences.
- Agreeing the reconciliation of holdings included in the Net Assets Statement to the source reports.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Significant risk - Valuation of complex investments

Financial statement impact

The proportion of the fund comprising Level 3 investments was 13.3% in 2020/21. As these investments are more complex to value and small movement in assumptions can have a material impact on the financial statements, we have identified Level 3 investments as a significant risk. Our audit approach will take into account the different types of securities designated as Level 3.

Total level 3 investments of the Fund as at 31 March 2021:

£400.25 million

What is the risk?

Valuation of complex investments

The Fund's Level 3 investments portfolio includes private equity (£285.78 million), and pooled property investments (£114.47 million).

Judgements are taken by the Investment Managers to value those investments where prices are not publically available. The material nature of Investments means that changes in assumptions can result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations can have a material impact on the financial statements.

Covid has also created an uncertain economic environment immediately prior to the Pension Fund's reporting date of 31 March 2021. As a result, the valuation of these complex investment assets as of 31 March 2021 are subject to increased estimation and potentially significant judgements as to the valuation method adopted.

What will we do?

We will:

- Review and disaggregate the securities making up the Level 3 investment portfolio;
- Consider the basis of valuation for these investments and assess the appropriateness of the valuation methods used;
- Obtain and review the latest audited accounts for the relevant fund managers and ensure there are no matters arising that highlight weaknesses in the funds valuation;
- Obtain ISAE3402 (or equivalent) controls reports and review for any issues or qualifications impacting the valuation controls over the funds;
- Perform procedures to develop our own estimate of the 31 March valuations using evidence such as recent trading, market movements, Indices and benchmarking date, and assess the reasonableness of valuations against our own expectations; and
- Review investment valuation disclosures to verify that significant judgements surrounding the valuation of level 3 investments have been appropriately made in the Pension Fund's financial statements.

Other areas of audit focus

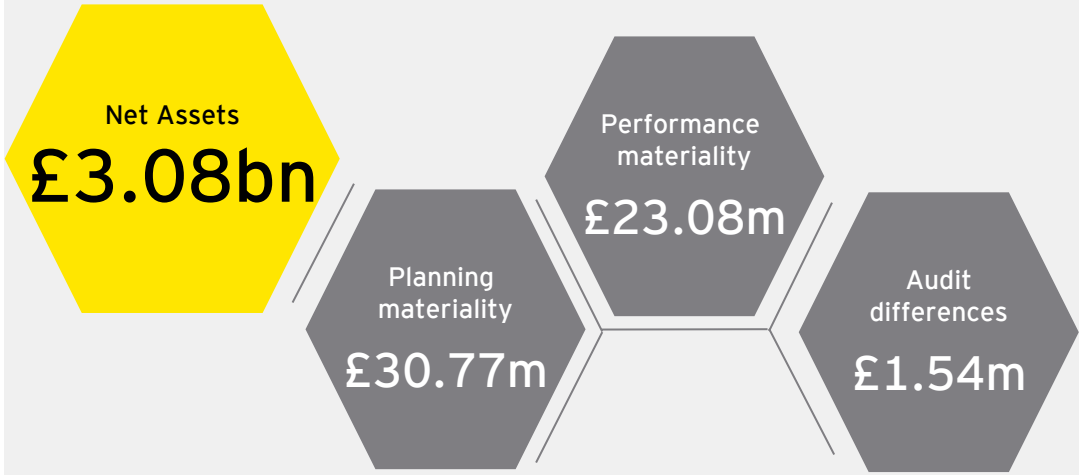
What is the risk/area of focus?	What will we do?
Going concern disclosures CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. There is therefore a presumption that the Pension Fund will continue as a going concern. However, the current uncertain economic environment as a result of the ongoing impact of Covid increases the need for the Pension Fund to undertake a detailed going concern assessment to support this assertion. International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Pension Fund's assessment will also need to cover this period. Therefore, the Pension Fund's going concern assessment and disclosure in the accounts will need to consider information relevant to potentially beyond the 2021/22 financial year to cover at least 12 months from the date of the report. .	In light of the unprecedented nature of Covid, and its ongoing impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. We will review your going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist. We will consider whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions, and key assumptions (e.g. assumed duration of the impact of Covid). Our audit procedures to review these will include consideration of: ▸ Current and developing environment; ▸ Liquidity (operational and funding); ▸ Mitigating factors; ▸ Management information and forecasting; ▸ Sensitivities and stress testing; and ▸ Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.

03 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £30.77 million. This represents 1% of the Pension Fund's net assets as per the draft accounts for 2020/21. Our materiality level will be reassessed throughout the audit process. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from pension liabilities. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £23.08 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2020/21 when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold (£1.54 million) are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

Other uncorrected misstatements, such as reclassifications, misstatements in disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Committee, or are important from a qualitative perspective.

04 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls;
- Substantive tests of detail of transactions and amounts; and
- Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management, the Committee and the Pensions Committee.

Internal audit:

We will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

05 Audit team

Audit team

Audit team structure:

Pension Specialist

EY Actuaries

Debbie Hanson
Associate Partner

Ghulam Hussain
Manager

Nicholas Hoar
Senior

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions Liability	Hymans Robertson (Northamptonshire County Council Pension Fund actuary) PwC (Consulting Actuary to the NAO) EY Pensions Advisory Team
Investment Valuation	The Pension Fund's custodian and fund managers EY Valuation Specialists (if required)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

06 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

We are not able to fully conclude our audit of the Pension Fund and issue our audit report until the audit of the Northamptonshire County Council accounts has been concluded. As the audit of the 2019/20 accounts of Northamptonshire County Council has not yet been concluded we are not currently able to confirm the date for conclusion of the 2020/21 audit.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	June		
Walkthrough of key systems and processes	June / July		Audit Planning Report
Year end audit	June - September		Audit Results Report
Audit Completion procedures	TBC		

07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no self interest threats that we need to bring to your attention at the date of this report

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020

08 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

As noted in slide 8, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. A combination of pressures is impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a result, we have had to revisit the basis on which the scale fee was set. We previously shared with the Council our proposal for increasing the scale fee and details of the main drivers. As a result of these factors, we are proposing an increase in the scale fee from £18,699 to £55,000. We will submit our fee estimate to PSAA for them to determine. This updated scale fee is not currently reflected in the table below.

	Planned fee 2020/21	Final fee 2019/20	Scale fee 2019/20
	£'s	£'s	£'s
Scale fee – Audit of the Pension Fund (see above comments)	18,699	18,699	18,699
Additional fee (Note 1)	TBC	16,700	NA
IAS 19 assurances (Note 2)	12,000	12,000	NA
Triennial review procedures (Note 3)	0	10,471	NA
Total fees for Code work	TBC	TBC	18,699

All fees exclude VAT

Note 1 – We are still finalising the 2019/20 audit and, as communicated in our Audit Results Report, we are proposing a variation in relation to the additional work in relation to the impact of Covid-19 on a number of areas of our work including in particular going concern and PBSE disclosures and associated consultation requirements. We will update the Audit Committee on the final fee once we have completed the audit. This proposed additional fee will also need to be approved by PSAA.

For 2020/21, the scale fee will be continue to be impacted by a range of factors as outlined in this Plan, including the ongoing impact of Covid, which will result in additional work to obtain the appropriate levels of evidence to support our opinion. We are not currently able to estimate the fee in relation to this additional work. We will provide further detail and the proposed fee in our Audit Results Report. Any scale fee variation will be discussed with the Pension Fund and will be submitted to PSAA for approval. PSAA will determine the final fee.

Note 2 - Additional fee of £12,000 is proposed in 2019/20 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies.

Note 3 – For 2019/20 we were required to undertake additional IAS19 procedures on the data submitted to the actuary to inform their triennial revaluation of the fund.

The agreed fee presented is based on the following assumptions:

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

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Plan – July 2021
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – September 2021

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ 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	Audit Results Report – September 2021
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report – September 2021
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit Results Report – September 2021
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – September 2021

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Plan – July 2021 Audit Results Report – September 2021
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – September 2021
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit Results Report – September 2021
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – September 2021

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – September 2021
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report – September 2021
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – September 2021
Fee Reporting	▸ 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 – September 2021 Audit Results Report – September 2021

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	**Risk Management Strategy**

Appendices

Appendix 1 – Risk Management Strategy and Framework

1. Purpose

1.1. The purpose of this report is to provide to the Committee the Council's Risk Management Strategy.

2. Recommendations

2.1. It is recommended that the Committee comments on and endorses the Risk Management Strategy.

3. Issues and Choices

Information

3.1 The Audit Committee's terms of reference set out that the Committee should:

"Monitor the effective development and operation of risk management and corporate governance within the Council."

3.2 In June 2021 the Executive Leadership Team approved the Risk Management Policy and it was signed off by the Chief Executive and the Executive Director – Finance.

3.3 As set out in the terms of reference this committee has a key role to play in the development and operation of the risk management process and therefore it is important that the Committee consider the policy.

3.4 The committee is requested to comment on and consider endorsing the attached Risk Management Strategy

4. Implications (including financial implications)

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

West Northamptonshire Council

Risk Management Strategy & Framework

Version 0.1 - Draft

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S151 Officer	

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Internal	**External**
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Links to other documents

Document	**Link**

Contents

West Northamptonshire Council

1. Introduction

The purpose of the risk management approach outlined in this document is to:

- Provide standard definitions and language to underpin the risk management process
- Ensure risks are identified and assessed consistently throughout the organisation through the clarification of key concepts
- Clarify roles and responsibilities for managing risk
- Implement an approach that meets current legislative requirements and follows best practice and relevant standards.

This risk management framework is drawn up pursuant to the principles of good governance in the public sector and in compliance with Statutory Instrument 2015 No. 234 for Local Government, England & Wales: the Accounts and Audit Regulations 2015 Part 2: Responsibility for Internal Control, wherein a relevant authority (local authority) must ensure that it has a sound system of internal control that:-

i. Facilitates the effective exercise of its functions and the achievement of its aims and objectives;

ii. Ensures that the financial and operational management of the authority is effective; and

iii. Includes effective arrangements for the management of risk.

Risk is the chance or possibility of loss, damage, injury or failure to achieve objectives caused by and unwanted or uncertain action or event.

Risk is therefore the “effect of uncertainty on objectives “(Source: BS ISO 31000:2009 Risk Management – Principles and Guidelines). Risk Management is the process whereby the Council methodically addresses those risks or barriers to achieving its vision and corporate objectives when developed. Risk thus arises from possible threats to objectives as well as failure to take advantage of possible opportunities.

Risk can also be operational in nature and exist at service or team level within an organisation, such as disaster recovery risks, health and safety risks or in risks relating to the care and protection of vulnerable residents, but are likewise to be seen as barriers to achieving operational outcomes and objectives. Unless effectively managed, such risks can escalate in their nature and impact to become much more significant and strategic in their impact.

The core ambition of West Northamptonshire Council (WNC) is to be one of the best councils in the country. Our plans will be further developed over the coming years, but we plan with confident expectation that in difficult times both the public of West Northamptonshire and WNC can and will rise to the challenges ahead.

To achieve this WNC has set six core values to its corporate strategy and these are:-

1) Trust – We are honest, fair, transparent and accountable. We can be trusted to do what we say will.
2) High Performance – We get the basics right and what we do, we do well.
3) Respect – We respect each other and our customers in a diverse, professional and supportive environment.
4) Innovate – We encourage curiosity, are creative and seize opportunities to grow individually as an organisation and as an area.
5) Value – We value each other's skills, experience and ideas and we celebrate our similarities, differences and environment.
6) Empower – We believe in people, will listen, learn and trust them to make decisions. We help people to realise their ambitions.

The aim of risk management at WNC is not to remove all risks, but to understand the nature of risks and to implement controlled, sensible, balanced and cost effective measures, to manage risk and achieve objectives within each activity and across the portfolio of all activities. Risk management therefore is not about being 'risk averse,' but about being 'risk aware' and this awareness will mean that the Council and its leadership team is better able to avoid threats and hazards and also take full advantage of opportunities that arise in the course of its business.

WNC recognises there is uncertainty in everything it does, and the uncertainties present both threats and opportunities. This strategy describes how the Council will manage these uncertainties by identifying, evaluating and controlling risk, increasing the authority's success in achieving its priorities and objectives and also by putting in place contingencies and an organisational agility for both planned and also unforeseen events.

The relationship between risk management and objectives is shown in Diagram 1 below:

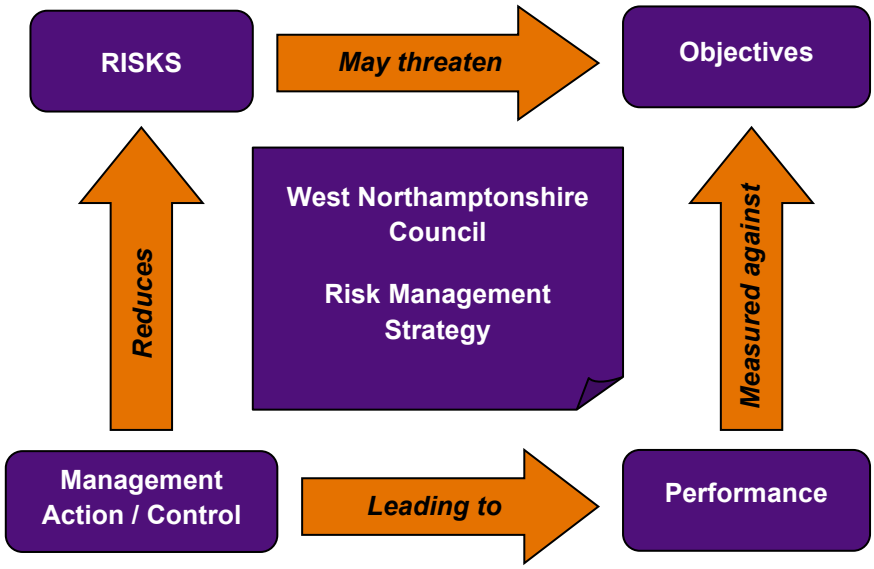


Diagram 1: Risks and Objectives

2. The benefits of risk management

There are a number of benefits to the Council in continuing to develop and embed a sound risk management function. The key benefits include:

- Supporting the Council in achieving its priorities and objectives at all levels within the organisation;
- Supporting better decision-making throughout the Council;
- Creating and contributing to effective governance procedures and protocols;
- Providing a framework for internal and external assurance;
- Targeting resources at areas and issues of greatest risk where the Council's objectives are most under threat;
- Providing an early-warning system to alert Officers and Members to potential threats and opportunities;
- Providing an organisational agility and rapid response capability to the above opportunities and threats and also any unforeseen events;
- Enabling the Council to act proactively, avoiding reactive management wherever possible;
- Protecting and enhancing the reputation of WNC.

3. Risk Management Policy Statement

Definition of Risk Management

Risk is the chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. Risk management is a planned and systematic approach to the identification, evaluation and control of those risks which can threaten the assets or financial and organisational well-being of the Council.

Policy Statement

WNC recognises that it has a duty of care to its residents, customers, employees, partners and visitors. In fulfilling this duty, the Council will endeavour to apply high standards of governance and to be efficient, effective, transparent and accountable.

Effective risk management is a statutory responsibility for the Council and is central to its good governance. Importantly, risk management is an integral part of the Council's business processes and assists with decision making and achievement of key objectives whilst providing evidence of effective management and control in support of the Annual Governance Statement.

It is impossible to remove all risk but the Council are committed to adopting a governance-driven, corporate, systematic and structured approach to the management of risk at WNC with the Council's leadership team setting a "tone from the top".

It will be also be the responsibility of councillors, all employees and partner organisations of the Council to review, understand the nature and take responsibility for controlling the risks within their service areas.

To give effect to this the Council will put in place this risk management strategy & framework document, the core elements of which will include procedures, protocols and detailed guidance to council officers. The objectives of the strategy are to:

- Adopt a strategic approach to risk management to make better informed decisions which is vital to successful transformational change;
- Set the 'tone from the top' on the level of risk we are prepared to accept on our different service delivery activities and priorities;
- Acknowledge that with even good risk management and our best endeavours, things can go wrong. Where this happens, we use the lessons learnt to try to prevent it from happening again;
- Develop leadership capacity and skills in identifying, understanding and managing the risks facing the Council;
- Integrate risk management into how we run Council business and/or services. Sound risk management processes help us to achieve our core purpose, priorities and outcomes;
- Support a culture of well-measured risk taking throughout the Council's business, including strategic, partnership, project and operational. This includes setting risk ownership and accountabilities and responding to risk in a balanced way, considering the level of risk, reward, impact and cost of control measures;
- Ensure that the Council continues to meet all statutory and best practice requirements in relation to risk management; and
- Ensure risk management continues to be a key and effective element of our Corporate Governance arrangements.

We will meet these objectives by:

- Establishing and articulating our risk culture; setting out expectations of behaviour throughout the Council;
- Maintaining a consistent and robust risk management approach that will;
  - Identify and effectively manage strategic, operational and project risk; and
  - Focus on those key risks that, because of their likelihood and impact, make them priorities;
- Utilise the internal control team to conduct healthchecks within service areas to ensure processes are robust;
- Ensuring accountabilities, roles and responsibilities for managing risks are clearly defined and communicated;
- Considering risk as an integral part of service improvement planning, key decision-making processes, and project and partnership governance;
- Communicating risk information effectively through a clear reporting framework; and
- Increasing understanding and expertise in risk management through targeted training and sharing of good practice.

Signatures:

08/06/2021

Anna Earnshaw

Chief Executive

Date signed

08/06/2021

Martin Henry

Executive Director of Finance (S151)

Date signed

4. Risk Management Approach

The council's approach to risk management is based on best practice and involves a number of key steps as outlined below:

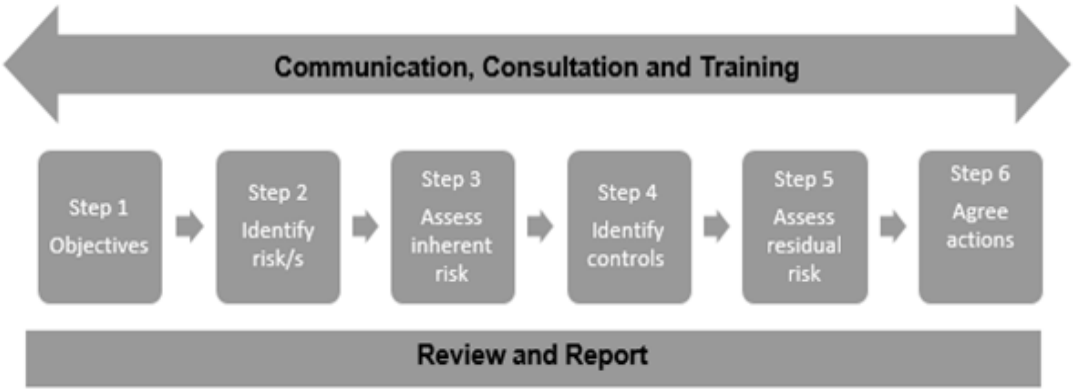


Diagram 2: WNC's Risk Management Approach

Risk can exist at a more operational level as part of the Council's day to day activities and importantly also in programmes and project management. At WNC, and similarly to the strategic level, this is being strongly embedded and integrated into the culture of the Council, with responsibility for managing risk assigned to managers and staff as part of their individual job profile and service area performance objectives. The approach of WNC is one of top down and bottom up whereby senior management focus on the risks to strategic objectives, the officers of WNC focus on the implementation of the strategy at an operational level.

Directorates and service areas within WNC may not carry the same risk profile and risk management will be deployed via the operation of risk registers which may be used to support managers in decision-making such as designing business processes, evaluating opportunities and for choosing and prioritising what areas of performance are monitored.

The purpose of the risk management approach outlined in this document is to:

- Provide standard definitions and language to underpin the risk management process;
- Ensure risks are identified and assessed consistently throughout the Council through the clarification of key concepts;
- Clarify roles and responsibilities for managing risks;
- Implement an approach that meets current legislative requirements and follows best practice and relevant standards.

5. Risk management roles and responsibilities

Although the corporate risk management framework is set and regularly monitored by Cabinet (who have ultimate responsibility for it) and the Council's Executive Leadership, core delivery of the approved risk management framework is primarily led by and rests with the Chief Executive, directors and statutory officers acting individually and collectively as part of the Executive Leadership Team, and who are then supported by their departmental

management teams or equivalent. The Risk Team will work in collaboration with corporate directors further to this offering advice and challenge and will work in reporting and monitoring terms to this protocol.

Furthermore, all Members, managers and staff of the Council, including when acting in partnership and joint venture with other bodies and organisations, have a general responsibility and duty to manage risk as an integral part of their role.

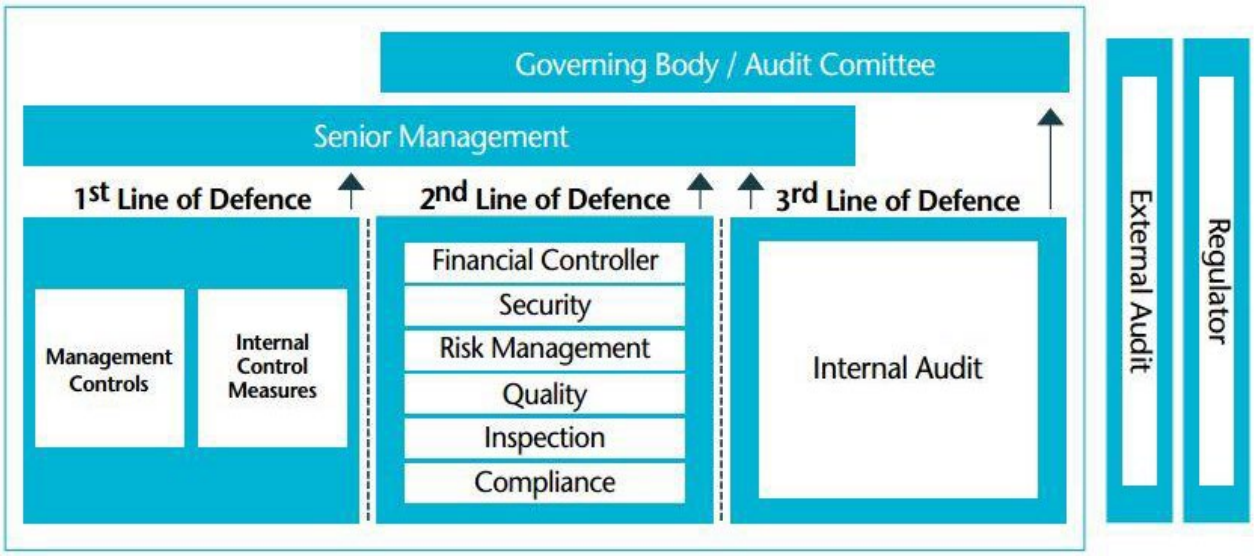
In addition, specific core risk-related/risk-driven support service activities, such as the performance management function, health and safety, insurance, emergency business continuity planning and programme and project management in addition all contribute to the overall corporate risk management process.

The Council and its leadership team will set the "tone from the top" on risk management and will directly oversee the risk management function in achieving its objectives and these will be to:-

- Continuously develop WNC's risk management framework to support the achievement of the Council's core values and its ambition to be one the best councils in the country;
- Facilitate the achievement of Council priorities and objectives by embedding an effective process of identification and management of strategic, service level and key operational risks;
- Similarly facilitate the achievement of Council priorities and objectives by embedding an effective process of identification and management of major programme and project risks;
- Ensure where appropriate risks are effectively escalated, and escalation is timely;
- Successfully manage the risks associated with the economic and financial short, medium and long run;
- Ensure the risks associated with partnerships are effectively identified and managed;
- Promote risk-awareness, particularly business risk awareness, risk-intelligence and risk management throughout the Council;
- Ensure risk management processes are engaging and relevant to all staff;
- Capture, expand and act upon positive risk opportunities;
- Support the effective identification and management of risks associated with delivering existing and new council services into both existing and new markets;
- Proactively identify and manage emergent risk;
- Clearly state and communicate to all council officers, managers, partners and residents their risk management responsibilities;
- Manage risk in line with recognised best practice in public sector governance.

A summary overview of responsibilities for risk management at the Council is at Annex A with further detail at Annex B.

The 'Three Lines of Defence' model is a way of explaining the relationship between the monitoring and assurance functions and a guide to how senior management should divide these responsibilities:



6. Risk registers

Whilst the management of risk at different management levels within the Council will vary in terms of focus and level of formal analysis, in order to ensure good practice, it is important that consistency and clarity of risk information is achieved on risk registers.

For this reason, a standard risk register format will be used throughout WNC to align service and programme risk registers with the corporate risks. The register has been kept in a simple form to enable service areas to understand the fields and get used to updating the register on a regular basis.

An overall risk register matrix has been added on the front-cover sheet of the corporate risk register to provide an at-a-glance helicopter view of the risks captured and to better reveal any potential form, pattern, spread or cluster of risks on the register.

7. Risk management process

Identify Risks

There are a number of different types of risks that an organisation may face including financial loss, failure of service delivery, physical risks to people, and damage to the organisation's reputation.

To act as a prompt and to ensure completeness, a checklist of risk categories has been developed around the acronym PERFORMANCE:

Political	**O**pportunities/Outcomes	**N**ew partnerships/projects/contracts
Economic	**R**eputation	**C**ustomers/Citizens
Regulatory	**M**anagement	**E**nvironment
Financial	**A**ssets	

Describing the risk is equally important to ensure that risks are fully understood and to assist with the identification of actions, the cause and effect of each risk must also be detailed. Once identified, all risks are recorded in a risk register.

A risk owner or champion must be allocated and recorded against each risk on the risk register. Such accountability helps to ensure ownership of the risk is documented and recognised. A risk owner is defined as a person with the accountability and authority to effectively manage the risk. At this stage there may well be a long list of possible risks. The next step will help to prioritise these in order of importance.

Assess Gross (Inherent) Risk Level

To ensure resources are focused on the most significant risks, the council's approach to risk management is to assess the risks identified in terms of both the potential likelihood and impact so that actions can be prioritised.

The risk management process requires each risk to be assessed twice – gross (or inherent) and net (or residual) risk levels. The first assessment (the 'gross' risk level) is taken on the basis that there is no action being taken to manage the identified risk and/or any existing actions are not operating effectively. In other words, the worst-case scenario if the risk were to occur.

To ensure that a consistent scoring mechanism is in place across the Council, risks are assessed using the agreed criteria for likelihood and impact via reference to the risk matrix shown below. The matrix uses a "traffic light" approach to show high (red), medium (amber) and low (yellow/green) risks.

Risk Scorecard – Residual Risks						
		Likelihood				
		1 – Very rare	2 - Unlikely	3 - Possible	4 - Likely	5 – Very likely
Impact	5 – Very high					
	4 - High					
	3 - Medium					
	2 - Low					
	1 - Negligible					

Diagram 3: Risk Matrix

Where probability and impact meet this determines the risk level. For example, possible probability (3) and major impact (4) would result in a risk level of 12.

Identify Existing Controls

Existing controls, which are helping to minimise the likelihood and/or impact of the risk occurring, are identified for each risk. These controls are specifically those in place or completed and should not include planned or aspirational actions.

Assess Net (Residual) Risk Level

The second assessment (the net risk level) re-evaluates the risk, taking into consideration the effectiveness of the identified existing actions and controls. In other words, the reality if the risk were to occur in the immediate future.

Net risks are prioritised by applying the same criteria and matrix used for assessing the gross risk level. It is the risk owner's responsibility to ensure that the agreed net risk level for each risk is an accurate reflection of the likelihood and impact measures detailed in Appendix 2.

The council considers the net risk to ensure that:

- Identified risks are prioritised in terms of their significance as it is not practical or possible to manage every risk all the time; and
- Existing actions are relevant and effectively managing and/or reducing the likelihood or impact of the identified risks.

Risk Response and Further Actions

Not all risks can be managed all the time, so having assessed and prioritised the identified risks, cost effective action needs to be taken to manage those that pose the most significant threat. Based on risk scores there are four response actions:

- **Avoid** – In this situation the risk is avoided by deciding not to proceed with an activity.
- **Transfer** – another party bears or shares all or part of the risk.
- **Reduce** – this involves identifying mitigating actions or controls to reduce risk.
- **Accept** – in this case, it may not always be necessary (or appropriate) to take action to treat risks.

Risk Appetite

The amount of risk at the strategic and corporate level that the Council and its leadership team are willing to take on, accept, tolerate or be exposed to in the pursuit of its business objectives, is generally referred to as its risk appetite.

Risk Appetite is not static and can be adjusted by the Cabinet with supporting advice from the Executive Leadership Team.

Importantly, in deciding the risk appetite and delegated risk appetite, Cabinet considers:

- Environmental and wider macro-economic factors, including central government legislation and any required reductions in spending and other efficiencies in services
- The amount of risk that is acceptable (what risk could be justified if it actually happened)
- The Council's funding levels and its overall capacity to bear risk.
- The areas/directorates within the Council that have an expertise and skill set for taking risk
- The extent and prevalence of operational and commercial opportunities capable of being exploited by the council

The Council's approach to risk appetite will evolve over the next few years as the risk management within the organisation is embedded and matures. Interviews and discussion during 2021/22 at the corporate level will enable the risk appetite to be assessed for future years.

Risk Mitigation

These are controls and actions put in place to reduce the likelihood of the risk occurring or minimising the impact if it does. An internal control system incorporating policies, processes, business continuity arrangements and other aspects of operations should:

- enable the Council to respond appropriately to business risks;
- help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate the flow of timely, relevant and reliable information; and
- help ensure compliance with applicable laws and regulations and also with internal policies.

The residual risk that remains is the net risk, it is also good practice to define "target risk" which indicates the tolerable level of risk that the Council should aim for.

Review and Report

Risk management should be thought of as an ongoing process and as such risks need to be reviewed regularly to ensure that prompt and appropriate action is taken to reduce their likelihood and/or impact. WNC's approach is one where such reviews are:

- where possible, part of existing performance monitoring timetables; or
- focus on those risk that, because of their likelihood and impact, make them priorities.

Regular reporting, through the reporting process, enables senior managers and members to be more fully aware of the extent of the risks and progression being made to manage them.

Risk registers are currently created and maintained on standard spreadsheets but could eventually be held on dedicated software. This enables the council to create a corporate risk profile, linked to its objectives, to record and manage risks in a consistent way, monitor and review risks and produce meaningful management reports.

Risk escalation

It is the responsibility of individual risk owners to raise risks which they believe require action by a higher authority. It should be emphasised though that we want to discourage people from escalating risks that they should be dealing with themselves. High risk issues should be escalated through the hierarchy that makes up the risk universe so that they are captured in the appropriate register for information purposes. However, responsibility for addressing the risk may still remain with the originator. Regular reviews will take place of directorate and service risk registers by the risk team for identification of risks that should be escalated to a corporate level. Should a risk present itself that requires urgent management attention the S151 Officer and Monitoring Officer should be informed who will evaluate the risk and forward to the Executive Leadership Team for inclusion in the corporate risk register.

Risks should feature as a standard agenda item at management team meetings. Discussions on risk should include:

- new or emerging issues and risks;
- evaluation and criticality of new or emerging issues and risks;
- decisions required and by whom;
- mitigating actions, action owners, timescales and review points;
- ownerships of new risks;
- the review of existing risks and the effectiveness of the current controls in place.

8. Monitoring and reporting arrangements

Monitoring risks

Risk management needs to be embedded in everyday activity. It is the responsibility, therefore, of each risk owner to review risks on a regular basis and identify whether any revisions are required. The revision may involve a re-assessment of impact and likelihood or planned mitigating actions.

As previously stated, it is important that risk is included as a standing item on the agenda for management teams (at all levels within the organisation) and working groups so that risks can be identified and captured. Initially, on a monthly basis during the management team meetings, each Director will seek assurance that the risks in their assigned areas are being adequately monitored and action is being completed as agreed in formal action plans.

Reporting and assurance arrangements

WNC’s risk management framework will be supported through agreed reporting and assurance arrangements. This is to ensure that the key risks and their owners are clearly identified that mitigation and specified actions are appropriate and that actions are being carried out. The arrangements include:

Corporate level

The Executive Leadership Team will review and approve risk management policies and strategies and will consult with the Audit Committee on these matters.

On a routine basis the Audit Committee will receive updates on WNC's risk management framework and risks. Reporting will include:

- the Corporate Risk Register including associated action plans for the higher rated risks; and
- reports on the changing risk profile within WNC including areas of increasing risk, where controls are not considered to be effective and horizon scanning for areas of possible future risk.

Directorate/service level

Each Director will review risks and actions in mitigation of risk on a regular basis as an integral part of the business planning process. These officers will also ensure that risks identified at a service level and which may have a wider impact on the organisation are escalated through to the Executive Leadership Team. The following should be considered:

- the status of all high risks (including actions taken)
- any new risks
- changed risks (especially where risk is increasing)
- risks escalated
- risks removed from registers.

Programme level

Programme and project management is very much about managing uncertainties. Poor risk management is a key element as to why many projects often fail. Risk taking in projects is inevitable since projects are enablers of change and change introduces uncertainty, hence risk.

Throughout the life of the programme or project there will be risks that need to be managed; to reduce the probability and impact of unwanted outcomes such as project time and cost overruns. To manage the risks the Project Manager will maintain a project risk register on behalf of the project.

Managing risks within a programme or a project will ensure that responsibilities are clear to:

- Implement appropriate measures and controls to manage risks during the life of the project
- Review the risks on a regular basis
- Identify and assess the impact of risks and their influence on the project schedule and other important project variables such as cost and quality
- Have appropriate contingency plans in place to remove or limit the risk (these can be either controls (already in place) or actions (yet to be undertaken but planned)

Where suppliers/and or partners are involved in the project, it is essential that there is a shared understanding of risk. There may need to be contingency plans and risk allowances (funding and time identified to manage such risks) allocated to allow for the possibility of (for example) delays or failure for a service to be taken up.

At a project level, a risk register is a key tool for managing risk, which must be reviewed and updated continually throughout the life of the project.

Within a programme or project, responsibility and ownership for managing risks must be assigned to individuals with the authority to take appropriate action on risk.

Performance management

The effectiveness of the risk management function is reviewed on an on-going basis by the Executive Leadership Team and its effectiveness is appraised and evaluated by the Audit Committee, who also monitor and challenge activities and progress. The risk management function is also audited against public sector best practice by both internal and external audit.

In addition, specific core risk-related/risk-driven support service activities, such as performance management, health and safety, insurance, emergency and business continuity planning and programme and project management all contribute to the overall corporate risk management process.

Review and control

This strategy and policy will be subject to regular review (at least annually) by the S151 Officer and the Executive Leadership Team with any changes reflected in related guidance, training and tools as appropriate.

Annex A & B are on the following pages.

Annex A Summary Overview of Risk Management Responsibilities

Risk Strategy Activity / **Council Group/ Team/Officer or Commercial Partner**	Develop the Risk Management Strategy	Agree the Risk Management Strategy	Provide Advice and Support on the Strategy	Implement the Strategy	Share experience of risk management issues	Review the effectiveness of the Strategy
Cabinet		●				●
Audit Committee			●		●	●
Executive Leadership Team	●			●	●	●
Directors	●			●	●	●
Section 151 Officer	●		●	●	●	
Monitoring Officer	●		●	●	●	
Major Programme & Project Boards				●	●	
WNC Trading Companies				●	●	
Commercial Partners/Joint Ventures					●	
Public Sector Partnerships					●	
Large WNC Procurement Contracts				●	●	
Shared Services (WNC Service-Lead)				●	●	
Shared Services (WNC Non-Leading)					●	
Departmental management teams			●	●	●	●
Council Committees/Boards/Groups				●	●	
Service Managers			●	●	●	●
Internal Audit	●		●	●	●	●
External Audit						●
Council Staff				●	●	
Northampton Residents					●	

(Source of Model – CIPFA; Risk Management in the Public Services)

Annex B Detailed Risk Management Responsibilities

Position	Role / Responsibilities
Cabinet	• Annually approve the Council's Risk Management Strategy & Framework • Provide leadership on risk management in the organisation • Consider the strategic risks associated with the decisions taken. • Monitor the Council's risk management arrangements, including via the Council's strategic performance and audit reports. • Assess risks in Cabinet reports and provide challenge, where necessary and identify risks associated with Cabinet decisions
Executive Leadership Team	• To lead risk management by example • To develop, implement and review the Council's Risk Management Strategy & Policy • To champion the effective application of risk management processes and principles across the Council's business systems • Seek assurance at least annually that all risks comprising barriers to achievement of the Council's corporate objectives have been identified and accurately assessed and are being managed • To review and update the corporate risk register and ensure mitigating actions are completed • Seek assurance at least annually that all directorates and major programmes and projects are appropriately complying with the Council's risk management policies and framework
Directorate Management Teams, or Equivalent	• Collectively support and contribute to their corporate discharge of their risk management responsibilities • Make arrangements for continuing to embed risk management and a risk aware culture throughout their respective directorates • Ensure risk is regularly reported (at least quarterly) to their Director and also the Borough Secretary • Maintain and review directorate rate risk register(s) on a quarterly basis
Service Managers	• Accept responsibility for managing risk as a core managerial competency • Manage the risks associated with their area, including those crossing area boundaries within their Directorate and their delegated budget allocation and service plan responsibilities • Ensure there is effective risk management within their service area • Ensure a risk register is in place for any business or major programme or project related risks and the risk registers are reviewed at least quarterly • Compliance with risk policies and ensure staff are trained in risk Management • Encourage staff to raise risks and send a message to staff that escalated risks will be evaluated and acted upon if necessary • Promptly advise senior managers of significant identified risks

Annex B: Detailed Risk Management Responsibilities

Position	Role / Responsibilities
Department management teams	• Review and discuss risk exception reporting • Discuss and review Directorate risk register(s), as necessary • Where appropriate, escalate risks for discussion and consideration by Management Board or the Borough Secretary for inclusion on the corporate risk register.
Programme and Project Boards	• Review and update risk registers/action plans for programme and project level risks • Report risks to the Programme/ or Project Board • Escalate any risks that exceed risk appetite to the next level or to the Borough Secretary for inclusion in the corporate risk register • Provide a copy of the updated risk register/action plan to the Borough Secretary
Other Council Boards, Panels, Steering Groups & Committees	• Produce a written Terms of Reference which requires risks to achieving Board/Committee/Panel/Group objectives, or opportunities to accelerating or enhancing achievement, to be identified, assessed, managed and reported by the Board/Committee/Panel/Group
Audit Committee	• Promote, support and co-ordinate risk management at Member level ensuring a positive and cogent attitude toward the understanding and treatment of risk at the Council • Monitor, advise and review at least annually the effectiveness of the Council's overall risk management framework and arrangements prior to submission to Cabinet and review the Council's key risks to ensure these are being adequately managed • To hold the Management Board accountable for effective risk management across the Council
Public Sector Partners	• Ensure that appropriate arrangements are in place to manage partnership related risks including risk escalation procedures • Actively manage risks within the partnership participating in the regular update and maintenance of a joint partnership risk register. • Report on risk management issues to the respective partnership board. • Show a clear link between objectives and outcomes that is customer focused • Escalate risks for inclusion on the service or corporate risk register
Commercial & Private Sector Partners	• Ensure that appropriate arrangements are in place to manage commercial partnership related risks including risk escalation procedures to relevant Board and/or DMT/Management Board • Actively manage risks within the commercial partnership and participating in the regular update and maintenance of a joint commercial partnership risk register. • Report on risk management issues to the respective partnership board. • Show a clear link between objectives and outcomes that is customer focused

Annex B: Detailed Risk Management Responsibilities

Position	Roles/Responsibilities
Council Commercial Trading Companies and/or LLP Partnerships	• Develop, implement and review the trading company's or partnership's risk management strategy • Seek assurance at least annually that all risks comprising barriers to the achievement of the strategic objectives of the company or LLP Partnership have been identified and accurately assessed and are being managed • Seek assurance at least annually that all divisions and departments within the company or LLP Partnership are appropriately complying with the company or partnership's risk management policies and framework • Ensure adequate risk escalation procedures are in place for the trading company or LLP Partnership • Escalate and report risks, as appropriate, quarterly for consideration and action by Management Board and the Borough Secretary
Shared Services (WNC Non-Lead)	• Ensure that appropriate arrangements are in place to manage and escalate shared services related risks. • Actively manage risks within the shared-service arrangements participating in the regular update and maintenance of a shared-services risk register. • Report on risk management issues to the Lead-Authority. • Show a clear link between objectives and outcomes that is customer focused
Internal Audit	• Independently evaluate the effectiveness of the Council's risk management arrangements and where appropriate make recommendations for improvement
Monitoring Officer	• Where it appears to the Monitoring Officer that a proposal under this framework gives rise to a contravention of law or maladministration to alert the Council to this
All Council Officers	• To use risk management as a tool to support decision-making • Raise/escalate any concerns or risks identified or considered within their working environment that are not being sufficiently addressed or directly to the appropriate council manager • Maintain vigilance and a risk-aware attitude of mind at all time

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	Strategic Risk Register

Appendices

Appendix 1 – Executive Leadership Team Risk Register

1. Purpose

1.1. The purpose of this report is to present the Strategic Risk Register which has been considered and approved by the Executive Leadership Team.

2. Recommendations

2.1. It is recommended that the Committee considers the Strategic Risk Register attached at Appendix 1 and comments upon it.

3. Issues and Choices

Information

3.1 The Audit Committee's terms of reference set out that the Committee should:

"Monitor the effective development and operation of risk management and corporate governance within the Council."

3.2 Earlier on the agenda there was a report which presented the Risk Management Strategy. Attached as an Appendix to this report is the Council Strategic Risk Register.

3.3 The register has been formulated using information contained in previous authorities risk registers as a starting point. Discussions then took place with each of the directorate management teams to refine, update and reflect the current risks that the officer team believe are the key risks being faced by the authority.

3.4 The number of strategic risks need to reflect the key risks the authority is currently facing but needs to be focussed to ensure those risks are properly managed and

mitigated. Too many risks will lead to a lack of focus in addressing the key areas of risk.

3.5 The risk register highlights 12 strategic risks which will receive the focus of the executive leadership team to address.

3.6 The risk management uses a 5 x 5 risk assessment matrix highlighting the likelihood of each of the risks happening and the impact those risks will have if they do come to pass. The highest score a risk can be given therefore is 25.

3.7 Two risk scores are provided in the appendix for each of the risks. An 'inherent' risk score which is assessed as if no controls or mitigating actions were in place. Mitigations are then highlighted and each score is re-assessed taking into account those mitigating actions to provide a residual score for each risk.

3.8 The residual score for each of the risks is summarised in the table below:

Executive Leadership Risk	Residual Score	Direction of travel	Latest Update
E01 Financial Resilience & Sustainability	**12 medium risk**		Ongoing impact of Covid-19 continues to affect all Council activities, mitigating actions and funding in place to reduce
E02 Statutory functions	**12 medium risk**		
E03 Childrens Trust	**12 medium risk**		Childrens trust live in Nov 20 and arrangements now with WNC & NNC from April 21
E04 Workforce Capacity and skills	**9 Low risk**		
E05 West Strategic Plan	**12 medium risk**		
E06 Economic Recovery	**16 High Risk**		Recovery Planning commencing as national lockdown release confirmed and impacts can be assessed alongside wider initiatives & funding
E07 Strategic Community Partners	**9 Low risk**		
E08 Critical Incidents	**12 medium risk**		Significant resource still utilised in COVID response but moving to restore, recover and react stage
E09 Health & Safety	**9 Low risk**		
E10 Information Security	**15 medium risk**		
E11 Local Government Reorganisation closure	**9 Low risk**		
E12 Corporate Governance	**6 Low risk**		

3.9 These risks will be reviewed on a regular basis and reported back to the Audit and Governance Committee on quarterly basis. Any new and emerging risks will also be considered as part of this process.

4. Implications (including financial implications)

4.1. Policy

4.1.1. None

4.2. Resources and Risk

4.2.1. The Council's strategic risks are contained within attached Appendix.

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

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West Northamptonshire Council

Risk Register

Due to issues of compatibility the Risk Register cannot be uploaded to this site.

If you would like a copy please email West Northants Democratic Services on;

democraticservices@westnorthants.gov.uk

Kind Regards

Democratic Services

West Northants Council

One Angel Square

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West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT & GOVERNANCE COMMITTEE

28 JULY 2021

Report Title	Work Programme

1. Purpose

1.1. The purpose of this report is to provide an updated work programme for consideration by the Committee

2. Recommendations

2.1. It is recommended that the Committee considers the work programme.

3. Issues and Choices

Information

3.1 Attached at Appendix A is an updated work programme for the Committee.

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.

4. Implications (including financial implications)

4.1. Policy

4.1.1. None

4.2. Resources and Risk

4.2.1. None

4.3. Legal

4.3.1. None

West Northamptonshire Council

4.4. Equality and Health

4.4.1. None

Report Author: Martin Henry
Executive Director – Finance
S151 Officer

Audit and Governance Committee

Appendix A

Work Programme

	28-Jul-21	30-Sep-21	25-Nov-21	27-Jan-21	31-Mar-21
Minutes from the previous meeting	x	x	x	x	x
Internal Audit Plan 2022-23					x
Internal Audit Progresss report	x	x	x	x	x
Internal Audit Annual Reports for predecessor authorities	x				
External Audit Progress report (Ernst Young)	x	x	x	x	x
External Audit Progress report (Grant Thornton)	x	x	x	x	x
Annual Audit Letter 2019-20 (SNC)	x				
Annual Audit Letter 2019-20 (DDC)	x				
Annual Audit Letter 2018-19 (NBC)	x				
Annual Audit Letter 2018-19 (NCC)	x				
Audit Planning Report 2019-20 (NBC)	x				
Audit Planning Report 2019-20 (NCC)	x				
Audit Planning Report 2020-21 (SNC)	x				
Audit Planning Report 2020-21 (DDC)	x				
Northamptonshire Pension Fund Audit Plan 2020-21	x				
Closure of accounts progress (Verbal update)	x	x	x	x	x
Risk management policy	x				
Corporate Risk Register	x	x	x	x	x
Predecessor authority recommendations		x			
Work programme	x	x	x	x	x

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