



Audit and Governance Committee

A meeting of the Audit and Governance Committee will be held at The Jeffrey Room, The Guildhall, Northampton on Wednesday 28 September 2022 at 6.00 pm

Agenda

1.	Apologies for Absence and Notification of Substitute Members
2.	Declarations of Interest Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.
3.	Minutes (Pages 5 - 10) To confirm the Minutes of the meeting of the Committee held on 22 nd June 2022.
4.	Chair's Announcements To receive communications from the Chair.
5.	Urgent Business The Chair to advise whether they have agreed to any items of urgent business being admitted to the agenda.
6.	Internal Audit Progress report (Pages 11 - 22)
7.	External Audit Update - Ernst Young Verbal Update Only
8.	Grant Thornton Audit Plan for Northamptonshire Pension Fund 2021-22 (Pages 23 - 46)
9.	Update on Medium Term Financial Strategy, annual budget and capital

	programme (Pages 47 - 52)
10.	Risk Register Update Report (Pages 53 - 56)
11.	Work Programme (Pages 57 - 60) To review and note the Committee Work Programme.

Catherine Whitehead
Proper Officer
20 September 2022

Audit and Governance Committee Members:

Councillor Cecile Irving-Swift (Chair) Councillor Charles Manners (Vice-Chair)

Councillor Jamal Alwahabi Councillor John Shephard
Councillor Rosie Humphreys Councillor Stephen Clarke
Councillor Jake Roberts Councillor Danielle Stone
Councillor Alan Chantler

Information about this Agenda

Apologies for Absence

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

Declarations of Interest

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

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

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

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Queries Regarding this Agenda

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

Email: democraticservices@westnorthants.gov.uk

Or by writing to:

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

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Audit and Governance Committee

Minutes of a meeting of the Audit and Governance Committee held at The Jeffrey Room, The Guildhall, Northampton on Wednesday 22 June 2022 at 6.00 pm.

Present Councillor Cecile Irving-Swift (Chair)
 Councillor Charles Manners (Vice-Chair)
 Councillor Jamal Alwahabi
 Councillor Stephen Clarke
 Councillor Danielle Stone
 Councillor Alan Chantler

Also Councillor Mike Hallam
 Present:

Apologies Councillor John Shephard
 for Councillor Rosie Humphreys
 Absence: Councillor Jake Roberts

Officers Alison Golding, Assistant Director - Human Resources
 Belinda Green, Assistant Director - Revenues and Benefits
 Martin Henry, Executive Director - Finance (Section 151 Officer)
 Sofia Neal-Gonzalez, Democratic Services Officer
]Audra Statham, Assistant Director Finance- Accountancy (Finance)
 Clare Young, Head of OD, Design and Change

61. Apologies

Apologies were received from Councillor John Shephard, Councillor Jake Roberts and Councillor Rosie Humphreys.

62. Declarations of Interest

None

63. Minutes

The minutes from the Audit meeting of the 28th of April 2022 were approved as true record.

64. Urgent Business

None

65. Chair's Announcements

The Chair advised that the action points mentioned in the previous minutes had been responded to.

Councillor John Shephard was thanked for this work as vice-chair of the committee and Councillor Charles Manners was welcomed to the role.

The Executive Director of Finance advised that Audra Statham the Assistant Director Finance (Accountancy) had taken on the role of interim Chief Internal Auditor. The new Chief Internal Officer was due to start on the 1st of August 2022.

66. Risk Register Deep Dive - Workforce skills and capacity - Risk E04 Update

The Chair introduced Councillor Mike Hallam, the Assistant Director of HR and the Head of Organisational Development, Design and Change who then presented the report via a presentation highlighting key points in the report.

Councillors made the following comments.

- Had the people strategy been seen by other councillors?
- What was the evidence that Employee Benefit Scheme worked?
- It was queried whether there was any data that showed how many staff left WNC within the first 6 months of their employment.
- The Planning Policy committee issues that had been of concern had not taken centre stage in the report.
- It was noted that it was important for WNC to grow its own talent.
- It was queried as to how issues were flagged up within different departments.
- Could WNC look at employees who have come from other Countries and ensure that their position matched their abilities – there were now various highly skilled people living in Northampton who had encountered difficulties in getting their qualifications accredited.
- External employment agencies had been used by the council; this was highly expensive, could these be bought back in house?
- It was queried whether the committee could be provided with a report of how many interim and agency staff WNC employed.
- Did the council have any staff on zero hours contracts?

The Chair reminded members that the Committee was not there to change policy but to assess when and if the risk register needed to be reviewed and to advise the Cabinet and the Administration accordingly.

The Assistant Director of HR made the following comments.

- It was advised that there had not been a dedicated recruitment team in place on vesting day.
- The people strategy had also previously been presented at the Corporate Overview and Scrutiny Committee and Cabinet

- The Employee Benefit Scheme was one of the additional things that WNC could do as an employer, the council was open to any different ideas for other benefits. Further exploration of this was required.
- Staff wellbeing and mental health support was a very important consideration.
- Data regarding staff leaving could also be found on one of the presentation slides.
- Communication with understaffed services was required to ensure that any issues were picked up and dealt with in a timely fashion.
- The committee was advised that it had been difficult to employ within the Planning Policy department.
- A Planning Academy was being looked at; this would allow WNC to grow the own talent.
- It was important for Managers to be aware of the skills, knowledge, and experience of their staff for those employees to be utilised effectively.
- It was agreed that external employment agencies had perhaps been overused. There were however some roles that did require outside help to fill.
- Zero hours contracts were one of the contract options that the council had.

Councillor Mike Hallam made the following comments.

- It was important to keep reviewing all the vacancies within the council.
- There were mental health first aiders on hand throughout WNC.
- Conversations would be on-going within the finance and HR department regarding vacancies.
- The council had been too late in their response to the staffing issues within Planning Policy department and had learnt from this.

RESOLVED: The committee noted the actions that had been taken to mitigate this risk.

67. **Exclusion of Press and Public**

68. **Housing Benefit and Council Tax Reduction Risk Based Verification**

EXEMPT

69. **Return to Public Session**

70. **Internal Audit Annual Report 2021-22**

At the Chair's invitation the Assistant Director Finance (Accountancy) presented the report. The overall opinion for the 21/22 audit was noted as satisfactory, for a new council this was a good result. It was advised that there were still some services that were operating across different systems, this would increase the risk in those areas. Part of the re-structure had included fraud officers moving into risk management and the internal audit team. The Committee was advised that 79% of audits were at the final draft stage.

Councillors made the following comments.

- It was queried who created the risk register itself.

- Some councillors had been made aware through residents of a high level of fraud taking place within the 'right to buy' scheme. Was there a system in place to monitor this?

The Executive Director of Finance advised that the Internal Audit team brought all the information together. The Risk Register was generated by the different services but the information collated and reported on by Internal Audit.

The Assistant Director Finance (Accountancy) noted that some services would not be able to be disaggregated until the council had one Revenue and Benefits system in place.

The Chair advised that if any councillors had been told of potential fraud, they should bring this to the attention of the relevant people within the council.

RESOLVED: It is recommended that the Committee considers the attached Internal Audit Annual Report and Opinion for 2021-22.

71. **Internal Audit Progress report**

At the Chair's invitation The Assistant Director of Finance (Accountancy) gave a verbal update to the committee and noted that they would receive a full written report at the next meeting. Members were advised that all fraud officers were counter fraud specialists and that the fraud prevention training would be provided again. WNC had applied for the NFI pilot which investigated housing tenancy fraud, this would mean that the council would have access to data that it would normally have to pay for.

A member noted that there was a huge problem with sub-letting within the private sector.

The recommendations were presented to the committee.

RESOLVED: That the committee noted the report.

72. **Audit and Governance Committee Annual Report**

At the Chair's invitation the Executive Director of Finance presented the report. Members were advised that the terms of reference for each area had been set out.

The recommendations were presented to the committee.

RESOLVED: The Committee considered the Audit and Governance Committee Annual report.

73. **External Audit Update - Grant Thornton**

At the Chair's invitation The Executive Director of Finance read a short statement on behalf of Grant Thornton updating on the progress of their work which covered the following points:

- Grant Thornton (GT) continues to liaise with EY over the completion of their audits and have plans to start the final accounts audit in Mid-September.
- GT's IT auditors have reviewed the key IT systems and are just awaiting the output from this work.
- GT will shortly be arranging a VFM meeting to discuss their approach to completing the VFM work for 2021/22 and agree the timing of that.
- Ciaran McLaughlin and Paul Harvey from GT have meetings arranged with all the Executive Directors and the Chief Executive on 5 July and we will be doing those meetings in person to build knowledge and understanding of the Council. The aims of the meetings are to allow the audit team to understand key responsibilities, risks, projects, and developments in each area across the Council.

The Assistant Director Finance (Accountancy) advised that the new auditors required the legacy audits to be completed to really begin their work.

Members were advised that the NBC and NCC audits were still not finalised, it was however noted that the difficulties with completing the NCC audit were because of a national issue.

The NBC audit was slightly behind due to ongoing queries. Members were advised that the deadline of the 31st of July would be missed, as the audits cannot be completed until the accounts are closed. The council was responding to every query as quickly as possible.

The Chair advised that the external auditors would attend the September meeting.

RESOLVED: That the update be noted.

74. **Work Programme**

At the Chair's invitation the Executive Director of Finance presented the report. Members were advised that the Internal Audit Plan had been forwarded to the new Chief Internal Auditor who had proposed a quarterly view of the plan.

A member put to the committee that there be no deep dive in September as a large amount of work would be ongoing, the committee agreed.

The Chair presented the recommendation to the committee.

RESOLVED: The Committee noted the work programme.

The meeting closed at 8.07 pm

Chair: _____

Date: _____



WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

28th September 2022

Report Title	Internal Audit update report
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Contributors/Checkers/Approvers

West MO	Catherine Whitehead	20 th September 2022
West S151	Martin Henry	20 th September 2022

1. Purpose

1.1. The purpose of this report is to provide an update on the work delivered by the Internal Audit team, up to 31 August 2022.

2. Recommendations

2.1. To note the report.

3. Issues and Choices

3.1. Report background

3.1.1. We provide the Audit and Governance Committee regular updates to provide assurance that the Council's governance is robustly monitored and challenged.

3.2. 2022/23 Internal Audit Progress Report

3.2.1. The progress report is attached at Appendix 1, and provides:

- Progress for planned audits
- A summary of counter fraud work

3.3. 2022/23 Internal Audit Plan Update

3.3.1. We are continually reviewing our audit plan to ensure that it supports the objectives and risks of the Council. The plan for work in quarter 3 is included in Appendix 1.

4. Implications

4.1. Policy

4.1.1. Audit and Governance Committee monitors progress against the Internal Audit annual plan.

4.2. Resources and risks

4.2.1. As set out in the report

4.3. Legal

4.3.1. Internal Audit supports the Council to meet its obligations under the Accounts and Audit Regulations 2015

4.4. Equality and Health

4.4.1. There are no specific equality and health issues to highlight within this report.

Internal Audit and Counter-Fraud Progress Update – September 2022

1 Introduction

- 1.1 This progress report provides a summary of Internal Audit and Counter Fraud activity undertaken for the period to 31 August 2022.

2 Summary

2.1 Internal Audit Plan Progress – Section 3 below and Annex A

Work is progressing to finalise 2021/22 audits alongside delivering 2022/23 audits.

2.2 Counter Fraud – Section 4 below

In relation to NPH Housing tenancy referrals between April 2022 and August 2022, the Counter Fraud team have reviewed and assessed 69 cases. The team support financial screening of s17 applications for the Children’s Trust and have dealt with 26 other counter fraud referrals. In addition, work has been undertaken on the National Fraud Initiative data submission requirements.

2.3 Service Resources and Performance – Section 6 below

The Head of Audit and Risk Management started on 1 August, and I am pleased to report that the service is now almost fully resourced, with one part time vacancy held to deliver financial savings.

3 Progress against Audit Plan

- 3.1 The table below summaries progress on the Audit Plan as of 31 August 2022. A breakdown of these and the percentage completion for each audit is at Annex A.

WNC AUDIT PLAN 2021-22	Original Plan	Completed	Draft report	In Progress	Planning	Not Started
Total Number of Audits	33	11	8	6	4	4
		33%	25%	18%	12%	12%

- 3.2 We are in the process of reviewing the 2022/23 Audit Plan to ensure that work undertaken provides adequate assurance to the Council and ensures effective mitigation of the risks the Council faces in achieving its objectives.
- 3.3 Of the 11 audits undertaken 3 received limited assurance for control environment and / or compliance.
- 3.4 The full reports for these three audits will be brought to the Audit and Governance Committee for further consideration.

	Control Environment	Compliance	Organisational Impact
IT Disaster Recovery	Limited	Limited	Moderate

Home to School Transport	Satisfactory	Limited	Major
IT Cyber Security	Limited	Limited	Major

- 3.5 Grant verification work continues to take place to enable certification of spend by the Chief Executive and Chief Internal Auditor and returns to be submitted to the relevant government office for 3 grants up to 31 August 2022.
- 3.6 The process for tracking recommendations from completed audits is under review. We continue to follow up recommendations, but will review and reclassify outstanding recommendations as follows:
 Not yet due (this would include recommendations where an extension has been agreed)
 Completed
 Transferred to follow up audit
 Overdue – management response received but not verified
 Overdue – no management response received

4 Counter Fraud Update

- 4.1 The counter fraud process involves work to identify situations where there is a fraud risk, ensure the processes in place prevent and reduce the opportunity for fraud to occur, and detect and investigate where fraud has occurred.
- 4.2 To support our fraud prevention work, we have updated the fraud online training module, which is available to all staff, and are reviewing the fraud reporting interface. Fraud referrals are risk assessed to decide whether detailed investigations are merited or whether alternative options are appropriate to progress matters.
- 4.3 A total of 55 housing tenancy referrals (NPH), have been received and addressed, with outcomes detailed in the table below.

Category by Outcome	No of cases	Outcome	Notional Savings / Debt Recovered
Housing applications	8	Applications withdrawn, refused or downgraded.	£262k
Housing properties	4	Properties recovered to be relet.	£372k
Recoverable Debt	2	Debt recovered	£6k
No action taken	41		
Total	55		Notional savings £634k Recoverable debt £6k

- 4.4 26 non-housing fraud investigations have been undertaken, with outcomes including referrals to the DWP and internal process improvements identified.

- 4.5 We continue to engage with the Cabinet Office National Fraud Initiative (NFI) data matching exercise. To date we have investigated 1,154 matches, with 53% completed; the Cabinet Office estimate of the value of these matches is £673k, with recoverable overpayments of £5k. Datasets are currently being prepared for submission for the next matching exercise.
- 4.6 We have also been selected to take part in an NFI Housing Tenancy Fraud pilot data matching exercise, which will involve over 11,000 properties being matched with national data to identify properties which are being sublet or misused.

5 Service Resource and Performance

5.1 Service Resource

I am pleased to report that the service is now fully resourced, other than a part time vacancy which is being held. We have had 3 new starters this year and have 2 more starting over the coming weeks. The team has an excellent range of knowledge and experience which we will be evaluating further over the coming months as part of an ongoing service review.

5.2 Plan completion and productivity

Work outstanding from the 2021/22 plan has been brought forward and incorporated into the 2022/23 plan. We continue to work on developing the plan to ensure that we offer a flexible, responsive service to the Council and can focus on emerging risks and challenges, alongside ensuring core governance and controls are robust.

5.3 IA Service Improvements

In addition to the above we will ensure that we have engagement standards that are communicated across the Council, to enable efficient and effective audit and counter fraud activities.

5.4 External Assessment

PSIAS requires that compliance with its provisions is externally assessed every 5 years. As we are a new service we will carry out an internal self-assessment and put in place a quality improvement programme. We will consider the most appropriate time for an external review, in liaison with the Executive Director - Finance and the Chair of the Audit & Governance Committee.

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. In developing the plan, we consult services, Senior Managers, Management Team and the Audit Committee.

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

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	
Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.

Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance	
Level	Definitions
Substantial	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 of Findings	
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 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.

- * Audit progress is measured within several stages
 - o Not started (0%)

- Planning stage / issue of Terms of Reference (5 to 10%)
- Fieldwork in progress (10% to 85%)
- Fieldwork complete / draft report being prepared or reviewed (85%)
- Draft Report issued / considering or awaiting management responses (90%)
- Final Report issued (100%)

Progress is assessed as a percentage of the whole audit as indicated above.

Rating of Audit Recommendations

When assessing findings, reference is made to the Council's Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found.

Likelihood	H	S	I	E
	M	S	I	E
	L	S	I	
		L	M	H
		Impact		

For ease of reference, we have used a high/medium/low system to prioritise our recommendations, as follows:

Category	Definitions
Essential	Action is imperative to ensure that the objectives for the area
Important	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Standard	Action recommended to enhance control or improve

Annex B
Progress as at 31 August 2022

Assignment	Audit Status *	Completion # %	Assurance +		
			Control Environment	Compliance	Org Impact
Completion of 2021/22 Audits - outstanding at Annual Audit Report					
Information Governance	Completed	100%	Satisfactory	Satisfactory	Moderate
IT Disaster Recovery	Completed	100%	Limited	Limited	Moderate
Financial Management - Budget Monitoring	Completed	100%	Good	N/A	Minor
Schools: Governance & Finance Procedures	Completed	100%	Good	Satisfactory	Minor
IT Cyber Security	Completed	100%	Limited	Limited	Major
Leisure Services - Establishment management	Completed	100%	Satisfactory	Satisfactory	Moderate
Financial Management - MTFP	Completed	100%	Substantial	Substantial	Minor
Housing Benefit and Council Tax Reduction	Completed	100%	Satisfactory	Satisfactory	Moderate
Transformation from Safe and Legal to BAU	Completed	100%	Satisfactory	Satisfactory	Moderate
Home to School Transport	Completed	100%	Satisfactory	Limited	Major
Northants Pension Fund	Completed	100%	Substantial	Satisfactory	Minor
Taxi Licensing	Draft report response being considered	95%			
Corporate Procurement (Adherence to Contract Procedure Rules)	Draft report response being considered	95%			
Emergency Planning	Draft report response being considered	95%			
Contract Management - Parking	Draft report response being considered	95%			
WNC / NNC Partnership Liaising Arrangement	Draft report issued	90%			
IT Systems Security - Carefirst System	Draft report issued	90%			
Council Tax	Draft report being prepared	85%			
NNDR Business Rates	Draft report being prepared	85%			
Planning Applications Process	Fieldwork in Progress	60%			



Assignment	Audit Status *	Completion # %	Assurance +		
			Control Environment	Compliance	Org Impact
Corporate Health and Safety	Fieldwork in progress	25%			
Payroll Transactional Testing	Fieldwork in Progress	80%			
Plan 2022/23 - planned or in progress					
Safeguarding Vulnerable Adults	Fieldwork in progress	40%			
Adults - Independent Care Payments	Fieldwork in progress	40%			
Community Infrastructure Levy (NEW)	Fieldwork in progress	10%			
Section 106 Income Collection & Monitoring	Planning - ToR issued	10%			
Performance Management	Planning - ToR issued	5%			
Homelessness Prevention	Planning	5%			
Highways - Road Adoptions and Section 38	Planning	5%			
Legacy Debt Migration	Not started	0%			
Customer Services - Complaints System	Not started	0%			
ERP Gold IT User Access Controls	Not started	0%			
Recruitment & Retention	Not started	0%			

Grant	Audit Status *	Completion # %	Assurance
Grant Verification Work			
Protect & Vaccinate Grant 2020/21	Completed	100%	Assurance given
LA Covid-19 Test & Trace Contain Outbreak Management Fund (COMF) 2021/22	Completed	100%	Assurance given
Former D&Bs + WNC - LA Test & Trace Support Payment Scheme Fund 2020/21 + 2021/22	Completed	100%	Assurance given
Bus Recovery Grant 2021/22 + Extension 2022/23	Planning	10%	
Disabled Facilities Grant 2021/22	Planning	5%	
LA Bus Subsidy (Revenue) Grant 2021/22	Planning	5%	
LA Covid-19 Test & Trace Contain Outbreak Management Fund (COMF) 2022/23	Planning	5%	
Social Housing Decarbonisation Fund Wave 1 2022/23	Planning	5%	





WEST NORTHAMPTONSHIRE COUNCIL AUDIT AND GOVERNANCE COMMITTEE

28 September 2022

Report Title	Grant Thornton Audit Plan for Northamptonshire Pension Fund 2021-22
Report Author	Ben Barlow, Ben.Barlow@Westnorthants.gov.uk

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	20 th September 2022
West S151	Martin Henry	20 th September 2022

List of Appendices

Appendix A – Northamptonshire Pension Fund Audit Plan Year ended 31 March 2022

Author: Grant Thornton (GT)

1. Purpose of Report

- 1.1 To present the Audit and Governance Committee with the Audit Plan for Northamptonshire Pension Fund from Grant Thornton.

2. Executive Summary

- 2.1 Grant Thornton act as the Northamptonshire Pension Fund's external auditors. As the external auditors they have produced a plan of the upcoming audit 2021-22 of the Northamptonshire Pension Fund.

3. Recommendations

- 3.1 The Committee is asked to:
- a) Note the Audit Plan 2021-22 and the presentation by Grant Thornton.

4. Reason for Recommendations

- 4.1 To accord with the Audit and Accounts Regulations 2015.

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 Grant Thornton (GT). 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 mis-statement.

6. Content, Responsibilities and Timeline

- 6.1 Grant Thornton (GT) 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 2022 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2022; and
- 6.1.2 the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of West Northamptonshire Council.
- 6.2 GT have produced an audit plan, setting out identified audit risks, expected materiality levels, the audit logistics and the planned delivery of the audit process. A Key Audit Partner and Audit Manager from Grant Thornton, Ciaran McLaughlin and David Rowley, will attend this meeting to present the audit plan.
- 6.3 Page 7 of the accompanying report identifies the key risks and areas of auditor focus, 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
Management over-ride of controls	<ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criteria for selective high risk unusual journals; • Test unusual journals recorded during the year and after the draft accounts state for appropriateness and corroboration 	<ul style="list-style-type: none"> • Ensure process notes include identified risks • Provide written process notes which detail controls • Make copy journals available • Provide working papers demonstrating the value used for the journals

Risk/area of focus	Audit approach	Fund approach
	<ul style="list-style-type: none"> Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	
Valuation of Level 3 investments (annual valuation)	<ul style="list-style-type: none"> Evaluate management’s processes for valuing level 3 investments; Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure the requirements of the code are met; Independently request year end confirmations from Investment Managers; Sample testing of investment values; Sample testing of purchases and sales; Analyse the funds holdings by sector, applying an additional layer of professional scepticism. 	<ul style="list-style-type: none"> 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

6.4 Page 13 of the accompanying report sets out the planned materiality levels for the audit, based on 1% of net assets of £3.3bn, reduced by 10% to reflect the impact of the Russia-Ukraine conflict, which are planned to be:

Audit Area	Materiality
Planning Materiality	£29.8m
Audit Differences	£1.4m

6.5 Page 15 of the accompanying report sets out the proposed timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Interim Audit	March 2022	Completed
Report audit plan	July 2022	Completed
Year end Audit	July -September 2022	In progress
Audit Findings Report	October 2022	Deadline 30 September 2022

6.6 The statutory date for publication of the final set of the Council's Statement of Accounts is the end of September, or as soon as reasonably practicable after the receipt of the auditor's final findings (if later).

6.7 The statutory date for publication of the Pension Funds Annual Report is 1st December.

7. Implications (including financial implications)

7.1 Resources and Financial

7.1.1 There are no resource or financial implications arising from the proposals in this paper. This paper is for information only.

7.2 Legal

7.2.1 The legal implications are set out in the main body of the report.

7.3 Risk

7.3.1 There are no significant risks arising from the proposed recommendations in this report.

7.3.2 The Fund's full risk register can be found on the Fund's website at the following link:

<https://pensions.northamptonshire.gov.uk/governance/key-documents/northamptonshire/>

7.4 Consultation

7.4.1 The Pension Fund Accounts are 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 are no climate impact considerations arising as a direct result of this paper.

7.7 Community Impact

7.7.1 There are no community impact implications.

7.8 Communications

7.8.1 This information only paper does not require any further communication activities.

8. Background Papers

8.1 Not applicable.

Northamptonshire Pension Fund audit plan

Year ending 31 March 2022

Northamptonshire Pension Fund
June 2022



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Key matters

Factors

Pension Fund developments

The latest financial data available as at the interim stage (September valuation) indicates the net assets of the Fund had increased from a position of 3.1bn as at 31 March 2021 to an unaudited position of £3.3bn as at 30 September 2021. This is reflective of increased market stability in the first six months of the 2021/22 financial year.

However, as we touch on below, there remain specific challenges and uncertainties in relation to the wider economic and political environment which will draw our attention as auditors and which management must work to mitigate.

The Ukraine – Russia conflict has resulted in increased market uncertainty during the final quarter of the 2021/22 financial year. The sanctions regime applied to Russia has led to spiralling oil and gas prices, with the energy price shock dampening investor sentiment. Most major indices have experienced a reduction of around 10% in February 2022. The audit team have opted to reduce the audit's materiality level by 10% to reflect this development.

2022 is also the year of the triennial valuation. This will not impact the 2021/22 year however will determine the level of funding and future contribution rates effective from the following year. This will also entail a significant time commitment from the pensions administration team during 2022.

The expectation on funds to invest sustainably and within environmental, social and governance initiatives is increasing with many funds setting net carbon zero targets.

DLUHC state their intention, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November for the 2021/22 accounts. The consultation ran from 6 – 20 May with the intention of making these changes via secondary legislation by Summer Recess.

Recovery from Covid 19 pandemic

At a higher level, the pandemic situation broadly appears to be improving with optimism returning to markets.

From an operational perspective, the Fund continues to manage the pandemic well, ensuring a continuation of the day to day financial management of the organisation and production of key financial information in line with agreed timetables. However, from our perspective as external auditors, remote working continues to present an operational challenge, in particular in relation to the time taken to obtain and process information in a remote setting.

McCloud

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. The main purpose of the Act is to support implementation of the McCloud remedy in the public service pension schemes. The McCloud remedy will be implemented in two phases that will impact the 2022/23 financial year.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee is outlined further in this report.
- We will continue to provide you with sector updates via our Audit and Governance Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to level 3 investments, management override of controls and revenue recognition - refer to page 8.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Northamptonshire Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Northamptonshire Pension Fund. We draw your attention to both of these documents.*

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee).

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The valuation of Level 3 investments is incorrect.
- Management override of controls.
- The revenue recognition cycle (including those related to expenditure) contains fraudulent transactions (rebutted).

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £33.2m (PY N/A) for the Pension Fund, which equates to 1.00% of your net assets as at 30/09/2021 per the custodian report. We have subsequently reduced this figure by 10% to £29.8m to reflect the market impact of the Russia-Ukraine conflict. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.4m (PY £N/A).

Audit logistics

Our interim visit will take place in March and our final visit will take place in July, August and September. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £51k (PY: £N/A) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

As this is our first year as auditors of the Fund, we will liaise with our counterparts on the predecessor engagement team at EY with a view to arranging an opportunity to gain assurance over opening balances via review of the predecessor audit file.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> - there is little incentive to manipulate revenue and expenditure recognition - opportunities to manipulate revenue and expenditure recognition are very limited; and - the culture and ethical frameworks of local authorities, including the administering authority for the Fund, West Northamptonshire County Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Northamptonshire Pension Fund.</p>
Management over-ride of controls	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of assets and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> - evaluate the design effectiveness of management controls over journals; - analyse the journals listing and determine the criteria for selecting high risk unusual journals; - test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; - gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and - evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments (annual valuation)	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statement date..</p> <p>By their nature, Level 3 investments valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgements to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value of these assets.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We will :</p> <ul style="list-style-type: none"> - Evaluate management’s processes for valuing Level 3 investments. - Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure the requirements of the code are met. - Independently request year end confirmations from investment managers, with an additional focus on ensuring use of appropriate IPEV (or equivalent) methodology in their valuation books, updated for most recent available guidance in relation to COVID-19. - For a sample of investments, test the valuation by comparing the valuation per the General Ledger (typically based on investor statement as at the reporting date, or in the case of harder to value assets, the latest capital statement available adjusted for known cash movements in the final quarter of the year) to direct confirmation of capital balances from investment managers and, where available, latest audited financial statements. - Complete sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances. - Analyse the funds holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or the impact of Brexit.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have engaged with management and obtained an understanding of the control environments around estimates via the Informing the Audit Risk Assessment document, which will be presented separately to the Pension Committee. We would ask that Committee members familiarise themselves with the report, ensure that they understand the information provided around calculation of estimates and flag up any instances where the information supplied by management is inconsistent with their understanding.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

The Pension Fund is administered by West Northamptonshire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

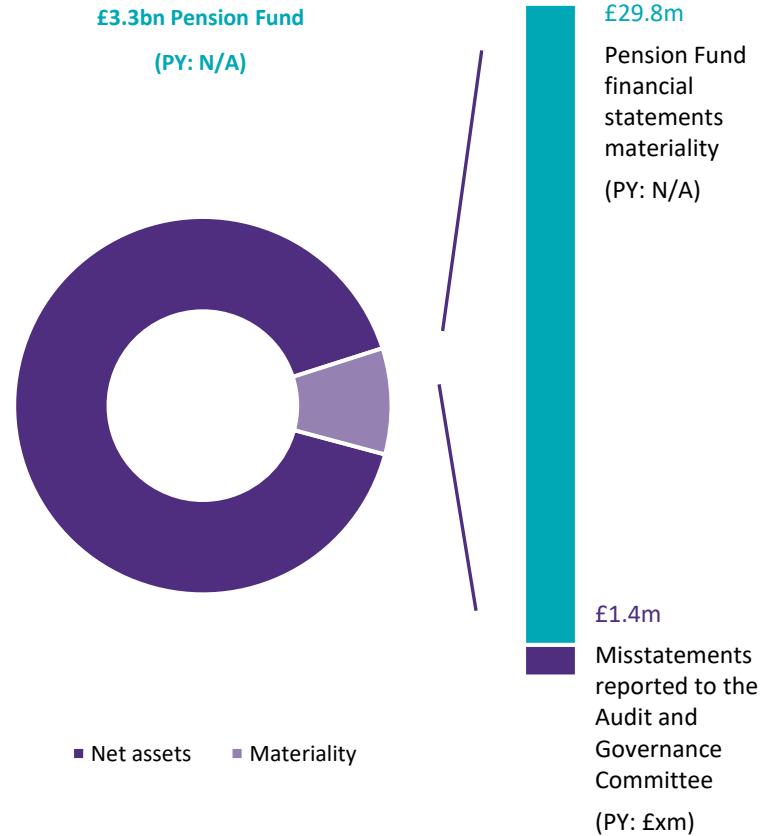
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. Materiality at the planning stage of our audit is £29.8m (PY N/A), which equates to 1% of your net assets as at September 2021, reduced by 10% to reflect the impact of the Russia-Ukraine conflict. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.4m (PY N/A).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pension Committee to assist it in fulfilling its governance responsibilities.

net assets at 30/09/2021



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

[We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.]

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Altair	Benefits payable	<ul style="list-style-type: none"> Assurance reports to be obtained from IT expert.
Agresso ERP	Financial reporting	<ul style="list-style-type: none"> Detailed ITGC assessment completed by internal expert.

Audit logistics and team

**Planning and
risk assessment**

**Interim audit
March 2022**

**Pension
committee
June 2022**
Audit Plan

**Year end audit
Summer 2022**

**Audit
committee
TBC (est Sept 2022)**
**Audit Findings
Report / Audit
Opinion**



Ciaran McLaughlin, Key Audit Partner

As your engagement lead, Ciaran will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Pension Fund and take overall responsibility for delivering high quality audits, which meet the highest professional standards while adding value



David Rowley, Audit Manager

As the engagement manager, David is responsible for overseeing the delivery of our service and managing the audit process in respect of Northamptonshire Pension Fund. He will be on hand to answer any queries, whilst ensuring an efficient audit process



Ben Stevenson, Audit Incharge

Ben will work with relevant officers and our on site team to ensure the smooth planning and delivery of the audit. He will oversee our operational team and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2021, PSAA awarded a contract of audit for Northamptonshire Pension Fund to begin with effect from 2021/22. The fee agreed in the contract was £45k. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 9 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Northamptonshire Pension Fund Audit	N/A	N/A	£51k
Total audit fees (excluding VAT)	N/A	N/A	£51k

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified.

[The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

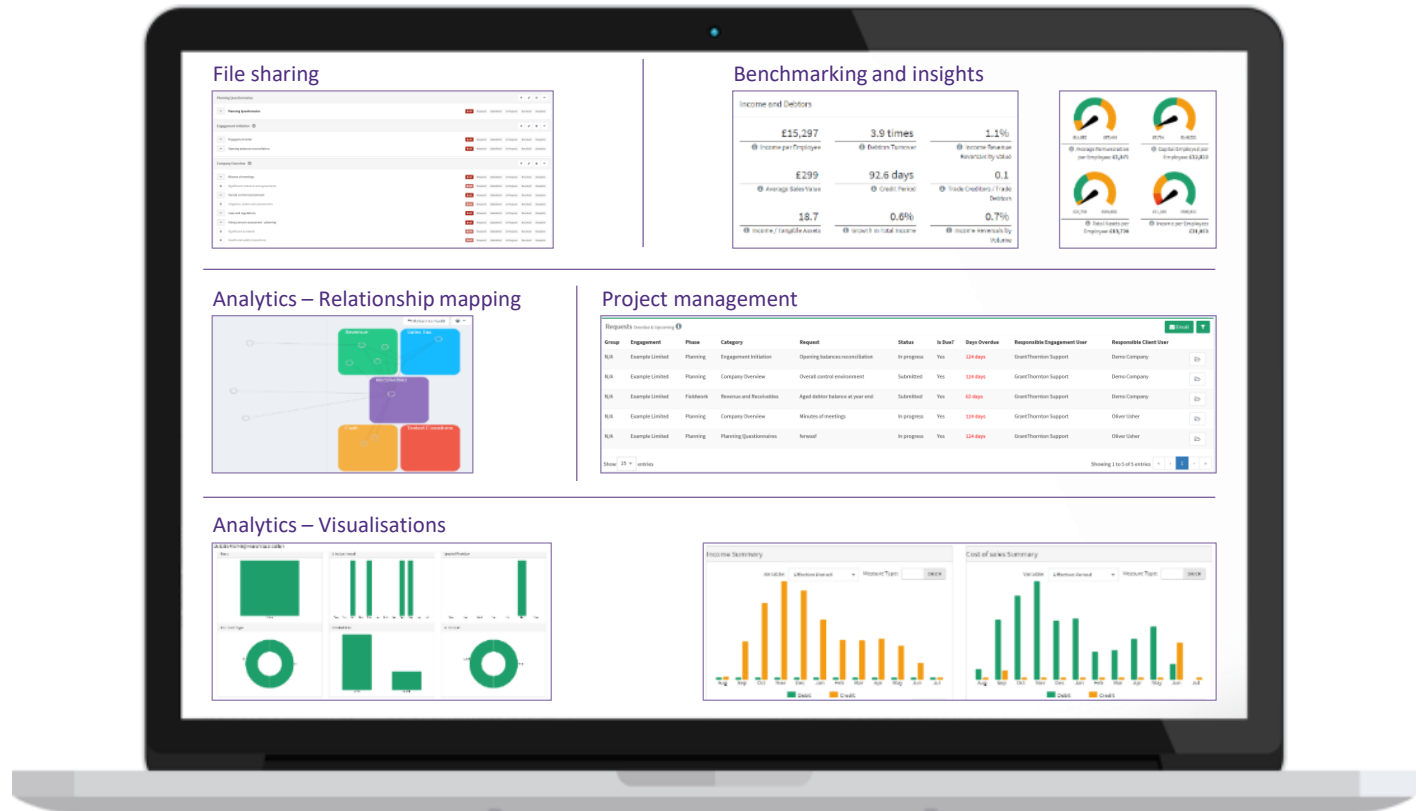
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
IAS19 Assurance letters for Admitted Bodies	£9k	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work will be small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related		No non audit related services	
Total	£9k		

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Info Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.



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WEST NORTHAMPTONSHIRE COUNCIL AUDIT & GOVERNANCE COMMITTEE

28 SEPTEMBER 2022

Report Title	Update on Medium Term Financial Strategy, annual budget and capital programme
Report Author	Martin Henry - Section 151 Officer

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	20 th September 2022
West S151	Martin Henry	20 th September 2022

1. Purpose

- 1.1. The purpose of this report is to provide an update on the medium-term financial strategy (MTFS), the annual budget and capital programme in line with paragraph 11.2 of the Finance Procedural rules which form part of the Council's constitution and states:

"11.2 The Committee [Audit and Governance Committee] will contribute to the development of and review of the effectiveness of the Medium Term Financial Strategy, the annual budget and capital programme."

2. Recommendations

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

3. Issues and Choices

Information

- 3.1 The finance procedure rules of the council set out that the Audit and Governance Committee should contribute to the development and review of the effectiveness of the medium-term financial strategy, the annual budget and the capital programme.
- 3.2 This is the first time this report has been prepared for the committee and seeks to contribute to meeting that requirement. This report sets out initial information on the revenue and capital budget for this year and emerging pressures we are aware of for next year's budget.
- 3.3 Future reports will highlight progress on the detailed budget setting process as well as reporting back on the emerging medium term financial position.

Current Year Position (2022-23)

- 3.4 There were three reports presented to the Cabinet meeting of West Northamptonshire Council held on 23 September 2022. They covered:
- The Quarter 1 revenue budget monitoring position for the current financial year (2022-23)
 - The Quarter 1 capital monitoring position for the current financial year (2022-23)
 - The Quarter 1 Treasury Management Position for the current financial year (2022-23)
- 3.5 The key messages within these reports were as follows.

Quarter 1 – Revenue Monitoring

- 3.6 The report highlighted the key pressures, caused by external factors, that have emerged since the budget was set in February 2022. The report highlighted the following areas of particular pressure:
- Inflationary and cost of living pressures impacting directly on the cost of providing services.
 - Ongoing financial impact of COVID allied with the withdrawal of significant COVID funds previously received
 - Demand led and inflationary pressures within the Children's Trust
 - Demand led pressures within the Adult Social Care
 - Cost of living pay award expected to be significantly greater than the amount included at the time of setting the budget based on the latest national pay award offer made by the employers' organisation



- 3.7 The report then highlighted the cumulative impact of this and other services pressures and made reference to the mitigating actions that management were taking to reduce the financial impact.
- 3.8 After taking into account the mitigating actions and the use of the contingencies built into the budget there was an in-year forecast overspend of £7.6m **which represents 2.2% of the total net budget and is therefore within acceptable tolerances.**
- 3.9 In spite of the forecast overspend being within acceptable tolerances the report then highlighted further steps being taken by management to seek to alleviate further the pressures being faced including the implementation of Spending Review Panels for all spend over £500.
- 3.10 The full report can be found at the following link and further updates will be reported to future Audit and Governance Committee meetings:

<https://westnorthants.moderngov.co.uk/documents/s7950/Revenue%20Monitoring%20Quarter%201%20-%20Financial%20Year%202022-23.pdf>

Quarter 1 Capital Monitoring

- 3.11 The report monitors spend against capital budget and highlights how the budget has changed since it was originally set in February 2022.
- 3.12 The cost of raw materials is experiencing significant increases and whilst we expect these to have an impact on capital projects we are not yet seeing this in significant overspends on capital although there is an expectation that these will begin to emerge over the course of the year.
- 3.13 The report also reports on the HRA capital programme which has been re-profiled to more accurately reflect the timing of capital expenditure in this area. The total capital programme budget envelope remains the same but is just profiled more accurately over the five-year life of the capital programme.
- 3.14 The full report can be found at the following link:

<https://westnorthants.moderngov.co.uk/documents/s7954/Quarter%201%20General%20Fund%20and%20Housing%20Revenue%20Account%20HRA%20Capital%20Monitoring%20Report%202022-23.pdf>

Treasury Management Quarter 1 Report

- 3.15 The report highlights the economic outlook and focusses on inflation and interest rate changes. The report recognises that there will be some financial benefit to the

council in the increasing interest rate environment but is currently forecasting that this will be offset by increased bank charges. As interest rates continue to rise this will be an area that is monitored very closely and reported back to the committee as required.

3.16 The report forecast what interest rates *could* do over the next period of time and concludes that the rates could be 2.75% by March 2023.

3.17 The full report can be found at the following link:

<https://westnorthants.moderngov.co.uk/documents/s7953/Treasury%20Management%20Update%20Quarter%201%202022-23.pdf>

2023-24 Detailed Budget Setting and Medium-Term Financial Strategy

3.18 The reports detailed above provide useful context for the formulation of next year's detailed budget setting process.

3.19 On the revenue account the pressures being faced in this year are continuing into next year and significantly increase the starting budget deficit set out in the final budget papers that went to full council in February 2022.

3.20 The main pressures being faced are similar to those being highlighted under paragraph 3.6.

3.21 The total budget deficit and the ongoing medium term financial position is in the process of being updated and will be reported back to a future meeting however it is clear that delivering a balanced budget for next year is going to be a challenging exercise.

3.22 As a result, the Council has been proactive in seeking to deal with the emerging issue which will be affecting local authorities up and down the country. It has:

- Started the budget setting process much earlier
- Commenced a weekly budget task force to drive the budget process and the initiatives that are expected to positively impact the overall position
- Implemented a Spending Restriction Panel to limit spend in this year and potentially see the benefit of that in next year too
- Already commenced a budget 'Star Chambers' exercise to scrutinise each of the directorates budget pressures in more detail and consider savings proposals being submitted by services



- 3.23 Further reports will be brought back to this committee to consider as we progress through budget setting. The updated medium term financial plan will also be shared once the detailed financial model that sits behind it has been updated.

4. Implications (including financial implications)

4.1. Policy

- 4.1.1. There are no significant policy implications associated with this report.

4.2. Resources and Risk

- 4.2.1. There are no financial and risk implications associated directly with this report which have not been set out within the body of the report.

4.3. Legal

- 4.3.1. There are no specific legal risks associated with this report.

4.4. Equality and Health

- 4.4.1. There are no specific equality and health issues associated with this report.

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

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WEST NORTHAMPTONSHIRE COUNCIL

AUDIT & GOVERNANCE COMMITTEE

28 September 2022

Report Title	Risk Register Update Report
Report Author	Martin Henry – Section 151 Officer

1. Purpose

1.1. The purpose of this report is to provide an update on the risk register, up to 30 June 2022.

2. Recommendations

2.1. The position is noted

3. Issues and Choices

3.1. Report background

3.1.1. The Audit and Governance 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. 2022/23 Risk Register

3.2.1. The Executive Leadership Team reviews and updates the risk register, monitoring progress in operational management of risks, on a regular basis. The residual score for each risk has also been considered and amended to reflect the revised actions and general update in the risk. The review of the risk register should always lead to updates on the current position on each risk, but quite often the residual risk will remain the same.

3.2.2. In this update the risk scores for 11 risks have remained as previously scored despite the risks being reviewed and updated. Following the Committee deep dive on E04

Workforce capacity and skills and, further evaluation of the mitigations in place the residual score for this risk has been increase from 9 to 12, thus demonstrating the added value the Audit and Governance Committee bring to the process. The Committee were concerned that given the current challenges in the labour market the residual risk score was too low. They carried out a ‘deep dive’ on the risk and following that officers were of the view that the position had changed significantly enough to increase the residual score to a medium risk rating of 12.

3.2.3. The table below gives the residual scores for the strategic risks as at 30 June 2022.

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 impacts
E02 Statutory functions	12 medium risk	↔	
E03 Children’s Trust	12 medium risk	↔	
E04 Workforce Capacity and skills	12 medium risk	↑	Residual risk increased from 9 to 12
E05 West Strategic Plan	12 medium risk	↔	
E06 Economic Recovery	12 medium 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	↔	

3.2.4. The detailed risk register is available upon request. Please contact the Chief Internal Auditor (Jen Morris) if a copy is required.

3.2.5. The next full update from all service areas will be undertaken during September to ensure a quarterly reporting date of 30 September 2022.

3.2.6. 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.

3.2.7. The risk register highlights 12 strategic risks which will receive the focus of the executive leadership team to address. 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. Two risk scores are evaluated on 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.

3.2.8. This risk management report has been provided to the Committee at a higher level than previous risk management reports to make it more focussed. The detailed risk register is available upon request and the risk management approach is in the process of being reviewed and streamlined.

4. Implications

4.1. Policy

4.1.1. Audit and Governance Committee monitors the Council's risk position.

4.2. Resources and risks

4.2.1. As set out in the report

4.3. Legal

4.3.1. There are no specific legal issues to highlight within the report.

4.4. Equality and Health

4.4.1. There are no specific equality and health issues to highlight within this report.



WEST NORTHAMPTONSHIRE COUNCIL AUDIT & GOVERNANCE COMMITTEE

28 September 2022

Report Title	Work Programme
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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. There are no significant policy implications associated with this report.

4.2. Resources and Risk

- 4.2.1. There are no financial and risk implications associated directly with this report.

4.3. Legal

4.3.1. There are no specific legal risks associated with this report.

4.4. Equality and Health

4.4.1. There are no specific equality and health issues associated with this report.

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

Work Programme

	28 September 2022	16 November 2022	04 January 2023	01 March 2023
Minutes from the previous meeting	x	x	x	x
Risk Register deep dive - Workforce				
Risk Based Verification				
Internal Audit Annual Report 2021-22				
Internal Audit Progresss report	x	x	x	x
Audit and Governance Committee Annual Report 2021-22				
External Audit Progress report (Grant Thornton)	x	x	x	x
Internal Audit Plan 2022-23 - Review	x			
Update on Budget Setting and Revenue and Capital Medium Term Capital Programme	x	x	x	x
Corporate Risk Register	x	x		x
Work programme	x	x	x	x

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