

# West Northamptonshire Council Update Report

Year ending 31 March 2022

West Northamptonshire Council  
January 2024



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# Audit Progress

## 2021/22 Financial Statements Audit

Our audit planning has been delayed as the Council has needed to focus on the completion of the legacy council audits. The delay in completing the legacy council audits has also had an impact on the Council's ability to prepare financial statements for 2021/22. We have not therefore undertaken any financial statements work.

### *Planning work to date*

We have been able to partially complete our planning work including:

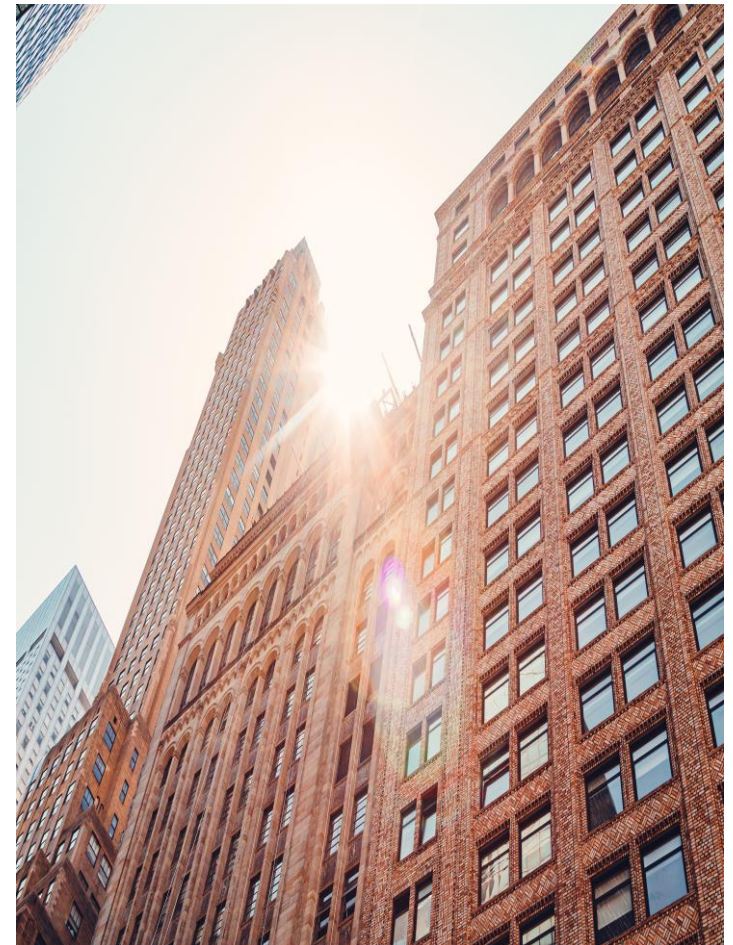
- Preliminary going concern assessment
- Review of the journal control environment
- Review of the IT environment
- Gained an understanding of some business processes for significant transactions in the financial statements.

Our work in these areas identified issues in relation to the IT and the journal control environments. Our findings in relation to the IT environment are documented on page 10.

In our review of the journal control environment we identified that within the ERP financial ledger 62 users have been granted the auto-approval rights when posting journals. We would not expect any user to have the ability to approve their own journals.

We have not commenced our planning for the 2022/23 audit (for the reasons set out above).

We do not plan to undertake any further work for 2021/22 and 2022/23. We discuss this as part of the section on the Government backstop arrangements on the next page.



# Audit Progress

## Backstop

As reported at the previous Audit & Governance Committee meeting to address the current backlog of Local Government audits the Government is implementing a backstop. It was previously communicated to us that the Backstop date would be 31 March 2024. The Government has revised its plans and has begun consultation on a 30 September backstop date.

The Backstop will require auditors to issue a disclaimed opinion on all audits up to and including 2022/23 that have not been signed off by this date.

Due to delays in the completion of the legacy council audits and preparation of the Council's 2021/22 financial statements we will not be able to complete the audit of 2021/22 & 2022/23 before 30 September and therefore we intend to issue a disclaimer opinion for both of these years. We will not therefore undertake any further work on the 2021/22 or 2022/23 audits

## 2023/24 Workplan

We have commenced our planning work for the 2023/24 audit and are planning to commence our audit of the draft accounts in July 2024 on receipt of the draft financial statements. We will bring our audit plan to the next Audit Committee.

If the 2022/23 opinion audit is disclaimed it is likely that we will have to undertake additional work on the opening balances for 2023/24. We are working closely with the NAO and CIPFA to determine the scope of this work and will report back on the time and extent of the work once confirmed.

Our work plan for 2023/24 will include, amongst other matters, an assessment of the Council's: control environment, going concern, journal control environment, IT environment, business processes, and group. We will also need to consider data migration, consolidation of systems, and opening balance transfer.

As part of our work we will also consider key metrics such as aged debtor and creditor analysis, bad debt provisions and credit loss allowances, control of POs and GRNI, suspense accounts and bank reconciliations, and collection rates.



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# Audit Progress

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## Disaggregation

The Council is currently working with North Northamptonshire Council to disaggregate the closing balances of Northamptonshire County Council at 31 March 2021. Although the Councils have been able to agree a significant proportion of these balances there are a small number of areas where there is disagreement on how the balances should be split. For these areas the Councils are currently seeking arbitration to determine the disaggregation.

We have held discussions with the Council over the disaggregation and in particular reviewed the work around the split of the Capital Financing Requirement (CFR). We cannot complete our work on opening balances until the disaggregation has been completed.

It is nearly three years since the Council was established. We remain concerned that the disaggregation process has not yet been completed. We will report this matter as a significant weakness in our Value for Money assessment of the Council for 2022/23 and will consider whether the use of our wider powers is appropriate if the matter is not brought to a timely conclusion.



# Audit Planning

We set out below details of the work we have undertaken as part of our audit planning.



## Journals Control Environment

During the year the Council operated 4 general ledger systems. This is because during 2021/22 the GL for each of the 3 legacy Councils are used for recording income at the 3 Councils (Collection Fund) and Housing Benefit Payments. The transactions recorded on these 3 legacy Councils GLs are then mapped into the central Country ERP Gold GL so that all transactions are eventually recorded on one ledger.

As a result we have had to review the journal control environment in operation for each of these general ledgers. Our findings are detailed below:-

- On the West Northamptonshire ledger we found that it is possible for Senior Financial Reporting personnel to post journals. It is also possible for 62 users to auto-approve their own journals, this includes 6 members of the Systems Business Team (system administrators).
- For the Northampton Borough Council legacy ledger we found that system administrators had posted journals in-year.
- For the South Northamptonshire Council legacy ledger we have that all finance staff can post and approve their own journals, with no subsequent check performed to ensure postings are accurate.
- For the Daventry District Council legacy ledger we found that the system administrators can also post journals.

## Systems

We have documented our understanding of the business processes that related to classes of transactions that are significant to the financial statements. This included the following areas

- |                                     |                               |              |
|-------------------------------------|-------------------------------|--------------|
| - Fees & Charges / Debtors          | - Grant Income                | - Payroll    |
| - Operating Expenditure / Creditors | - Housing Benefit Expenditure | - PFI        |
| - Property, Plant & Equipment       | - Pensions                    | - Cash       |
| - Investments                       | - Borrowing                   | - Provisions |

Our work in these areas to date has not identified any issues around segregation of duties. We did, however, note that the Council is currently operating 4 fixed asset registers which (WNC / legacy County Council and 1 FAR for each of the legacy District Councils).

# Significant risks identified

Based on the planning work we have completed to date we have identified the following significant risks.

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
Fraudulent revenue recognition (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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted except for General Sales Income and Fine and Penalty Income, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are limited</li> <li>• the culture and ethical frameworks of local authorities, including West Northamptonshire Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Fraudulent expenditure recognition (not applicable)	<p>Whilst not a presumed significant risk, Practice Note 10 states that as most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the risk factors set out in Practice Note 10 and the nature of the expenditure at the Council, we have determined that there is not a significant risk of misstatement arising from fraud in expenditure recognition, for the same reasons as set out above.</p>

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

# Significant risks identified

Risk	Reason for risk identification
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending 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, which was one of the most significant assessed risks of material misstatement.</p>
Opening Balances	<p>The Council's opening balances are made up of the closing balances of Daventry District Council, Northampton Borough Council and South Northamptonshire Council at the 31 March 2021, in addition to a share of Northamptonshire County Council's closing balances.</p> <p>The Council is currently working with North Northamptonshire Council to disaggregate the closing balances of Northamptonshire County Council at 31 March 2021. Although the Councils have been able to agree a significant proportion of these balances there are a small number of areas where there is disagreement on how the balances should be split. For these areas the Councils are currently seeking arbitration to determine the disaggregation.</p> <p>Given the complexity of this area and the amount of progress made to date we have identified opening balances, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>
Group Consolidation	<p>The Council has inherited a number of interests in companies from the legacy Councils. The most significant of these as The Children's Trust and Northampton Partnership Homes.</p> <p>As a result the Council will need to prepare Group Accounts for the first time in their 2021/22 financial statements. We are still awaiting an assessment of which Companies will need to be consolidated into the Council's financial statement.</p> <p>Given the complexity of this area and the amount of progress made to date we have identified the preparation of Group Accounts, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>



# Significant risks identified

Risk	Reason for risk identification
Valuation of land and buildings (inc Council Dwellings)	<p>These valuations 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>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

# IT Environment

We set out below details of the work we have undertaken on the Council's IT environment.



In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. 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 and implementation of relevant ITGCs.

The IT environment for West Northamptonshire is complex, due to the legacy systems that it inherited on vesting. As a result we have had to review the design and implementation of the ITGCs for the following systems:

ERP Gold Business World (Unit 4)

ICON

Civica

Agresso (Unit 4)

AIM

Academy (Capita)

Northgate

Active Directory




We have completed this work for 2021/22, we have identified a number of matters that we are discussing with management. We will report our IT findings to the Audit Committee in more detail once these discussion have been completed. We will be undertaking follow-up work, to review the implementation of our recommendations as part of our 2023/24 audit.

# Value for Money arrangements

## 2021/22

We completed our work on the Value for Money arrangements for 2021/22 and reported our findings in July 2023. A summary of our findings are detailed below.

Criteria	Risk assessment	21/22 Auditor Judgment	
Financial sustainability	No risks of significant weakness identified	Amber	No significant weaknesses in arrangements identified, but 11 improvement recommendation made
Governance	No risks of significant weakness identified	Amber	No significant weaknesses in arrangements identified, but 5 improvement recommendation made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	Amber	No significant weaknesses in arrangements identified, but 4 improvement recommendation made

-  No significant weaknesses in arrangements identified or improvement recommendation made.
-  No significant weaknesses in arrangements identified, but improvement recommendations made.
-  Significant weaknesses in arrangements identified and key recommendations made.

## 2022/23

Our work on your Value for Money arrangements for 2022/23 is underway and we will report our findings at the next Audit & Governance Committee meeting. As highlighted earlier, we consider that the lack of progress on the disaggregation of the opening balances to be a significant weakness in the Council's arrangements.

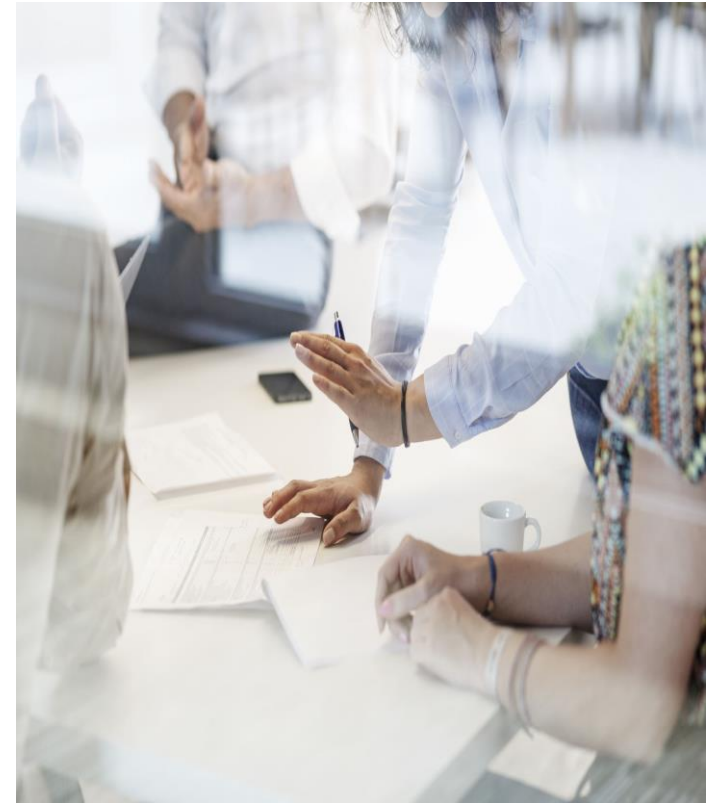
# Audit fees

In 2021, PSAA awarded Grant Thornton a contract of audit for West Northamptonshire Council for 2 years with effect from 2021/22. Following another national procurement exercise by PSAA in 2022 this contract has been extended to 2027/28.

As previously reported we have not been able to complete our audits for 2021/22 & 2022/23 and expect the backstop to come into effect for these audits. Although we have not been able to complete these audits we have incurred costs in relation to the work we have already completed and these are detailed in the table below, with a detailed analysis on the next page. We have not undertaken any non-audit services for the Council.

	Scale Fee	Costs incurred to date
2021/22	£350,000	£155,000
2022/23	£350,000	£45,000
2023/24	£754,109*	TBC

\* The Scale Fee for 2023/24 does not include any additional work required on opening balances due to a disclaimer opinion in 2022/23.



# Audit fees – detailed analysis

Breakdown of costs incurred to date	
<i>2021/22</i>	
IT audit work	£35,000
Audit planning work	£75,000
Liaison meetings and attendance at Audit & Governance Committee	£15,000
Work on disaggregation	£5,000
VfM	£25,000
<b>Total</b>	<b>£155,000</b>
<i>2022/23</i>	
Liaison meetings	£10,000
Work on disaggregation	£5,000
VfM	£30,000
<b>Total</b>	<b>£45,000</b>

All variations to the scale fee will need to be approved by PSAA



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