

A photograph of a meeting table with documents and hands pointing at them. The table is white, and there are several sheets of paper with text on it. A person's hand is pointing at a document on the left, and another person's hand is pointing at a document on the right. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

# Daventry District Council and South Northamptonshire Council

## Outline Audit Strategy

3 June 2021

Year ended 31 March 2021



Private and Confidential  
Audit and Governance Committee Members  
West Northamptonshire Council

3 June 2021

Dear Audit and Governance Committee Members

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

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

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

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

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

Yours faithfully

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

For and on behalf of Ernst & Young LLP





# Overview of our 2020/21 audit strategy



## Overview of our 2020/21 audit strategy

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

### Audit risks and areas of focus

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

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

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

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

### Audit risks and areas of focus

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

### Auditing accounting estimates

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

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

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

#### Planning materiality

£831k DDC  
£769k SNC

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

#### Performance materiality

£623k DDC  
£577k SNC

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

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

#### Audit differences

£42k DDC  
£37k SNC

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

### Timeline

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

### Fees

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

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

### Audit scope

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

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

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

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

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

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

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

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

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

### Value for money conclusion

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

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

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