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Meeting: Audit and Governance Committee
Date: Monday 12th July, 2021
Time: 2.00 pm
Venue: Council Chamber, Cedar Drive, Thrapston

To Members of the Audit and Governance Committee

Councillors Andrew Weatherill (Chair), Kirk Harrison (Vice-Chair), Matt Binley, Ian Jelley, Richard Levell, Peter McEwan, Zoe McGhee, Mark Pengelly, Russell Roberts and Kevin Watt.

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02	Members' Declarations of Interests		
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05	Predecessor 2020/21 Internal Audit Annual Opinions (TO FOLLOW)	D Wilkinson, Chief Internal Auditor	
06	Internal Audit Charter and Strategy	D Wilkinson, Internal Internal Auditor	13 - 28
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Exempt Items			
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<p>Adele Wylie, Monitoring Officer North Northamptonshire Council</p>  <p>Proper Officer Friday 2 July 2021</p>			

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Committee Administrator: Fiona Hubbard

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ITEM	NARRATIVE	DEADLINE
Members of the Public Agenda Statements	Requests to address the committee must be received by 5pm two clear working days before the meeting. You will have a maximum of three minutes. Statements must relate to matters detailed on the meeting agenda. A member of the public may only address the committee once.	5pm Wednesday 7 July 2021
Member Agenda Statements	Requests to address the committee must be received by 5pm two clear working days before the meeting. You will have a maximum of three minutes. Statements must relate to matters detailed on the meeting agenda. A member may only address the committee once.	5pm Wednesday 7 July 2021

If you wish to register to speak, please contact the committee administrator

Members' Declarations of Interest

Members are reminded of their duty to ensure they abide by the approved Member Code of Conduct whilst undertaking their role as a Councillor. Where a matter arises at a meeting which **relates to** a Disclosable Pecuniary Interest, you must declare the interest, not participate in any discussion or vote on the matter and must not remain in the room unless granted a dispensation.

Where a matter arises at a meeting which **relates to** other Registerable Interests, you must declare the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but must not take part in any vote on the matter unless you have been granted a dispensation.

Where a matter arises at a meeting which **relates to** your own financial interest (and is not a Disclosable Pecuniary Interest) or **relates to** a financial interest of a relative, friend or close associate, you must disclose the interest and not vote on the matter unless granted a dispensation. You may speak on the matter only if members of the public are also allowed to speak at the meeting.

Members are reminded that they should continue to adhere to the Council's approved rules and protocols during the conduct of meetings. These are contained in the Council's approved Constitution.

If Members have any queries as to whether a Declaration of Interest should be made please contact the Monitoring Officer at – monitoringofficer@northnorthants.gov.uk

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NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Report Title	Audit & Governance Committee Terms of Reference	
Report Author	Duncan Wilkinson – Chief Internal Auditor duncan.wilkinson@milton-keynes.gov.uk	
Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME	N/a	N/a

List of Appendices

Appendix A – Terms of Reference

1. Purpose of Report

- 1.1. For the Committee to note the Terms of Reference (ToR) for the Audit & Governance Committee adopted within the Council’s Constitution.

2. Executive Summary

- 2.1. This report and Annex A outlines the ToR and constitutional requirement in relation to the Audit & Governance Committee.

3. Recommendations

- 3.1. It is recommended that the Committee note the ToR as at Annex A.
- 3.2. Reason for Recommendations –
- For the Committee to note its duties and responsibilities within its ToR under the approved Council Constitution.

4. Report Background

- 4.1. The Audit & Governance Committee (AGC) was established as a standing committee of Council to discharge certain non-Executive functions including those set out within the Accounts and Regulations 2015.
- 4.2. The Committee’s main functions are detailed within the Constitution and are reproduced in Annex A.

- 4.3. The membership of the Committee is subject to political balance with 7 Conservatives and 3 Labour
- 4.4. The Committee is subject to the provisions of the Local Government Act 1972 (as amended).
- 4.5. Meeting dates were agreed by Annual Council and included within the Committee Calendar for 2021/22. These are as follows
- Monday 12th July at 2:00 pm
 - Monday 13th Sept at 2:00 pm*
 - Monday 8th Oct at 2:00 pm
 - Monday 10th Jan at 2:00 pm
 - Monday 14th Mar at 2:00 pm
- * There is a probable need to move the Sept meeting later in the month (possibly 27th) to allow for the current timelines for auditing the predecessor financial accounts.
- 4.6. An Audit Committee is required to deliver the core responsibilities defined by the Accounts and Audit Regulations (2015). Key statutory and best practice requirements in this area include:
- Accounts and Audit Regulations 2015
 - Cipfa 2018 Local Authority Guidance for Audit Committees
 - Public Sector Internal Audit Standards
 - Local Government Application Note
- 4.7. The Terms of Reference attached at Annex A are consistent with CIPFA's guidance document which gives a template for the Committee's Terms of Reference.
- 4.8. Whilst not a legal requirement for Councils the CIPFA guidance is also clear that an effective Audit Committee that is independent of both the executive and the scrutiny functions should include an independent member where not already required to do so by legislation.
- 4.9. The Council (consistent with the approved ToR) is progressing the appointment of 3 independent members for the Committee.

5. Issues and Choices

- 5.1. The Committee is being requested to note its Terms of Reference

6. Implications (including financial implications)

6.1. Resources and Financial

- 6.1.1. The creation of an Audit Committee creates a small financial pressure for the Council to resource and support a full Committee of the Council across the 5 scheduled meetings) meetings per annum.

6.1.2. The appointment of independent members creates small additional financial cost to the Council if an allowance is payable, plus the periodic recruitment costs of those roles, usually every 3-5 years.

6.2. Legal

6.2.1. The approval and creation of an Audit Committee as recommended meets the Council's legal responsibilities under the Accounts and Audit Regulations 2015

6.3. Risk

6.3.1. The creation of a properly constituted Audit Committee is a key governance measure that provides the recommended oversight of controls and risk management. None specific to this report.

6.4. Consultation

6.4.1. None specific to this report.

6.5. Consideration by Scrutiny

6.5.1. Not required on this occasion.

6.6. Climate Impact

6.6.1. None specific to this report.

6.7. Community Impact

6.7.1. None specific to this report.

7. Background Papers

7.1. Council Constitution.

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

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Audit and Governance Committee Constitution Extract

The Council has established an Audit and Governance Committee. One of the reasons it has been established is to act as an advisory committee to the Council and the Executive on audit and governance issues. The functions that are to be discharged by the Committee are not Executive functions and cannot be discharged by the Executive.

The purpose of the Committee is to provide independent assurance as to the Council's governance, risk management framework and associated control environment. This is important to ensure that the Council understands where things may go wrong and has controls in place to make sure that it mitigates against them. It should also provide independent scrutiny of the Council's financial and nonfinancial performance and oversee the Council's financial reporting process. To help maintain its independence, the Committee has the right to meet privately with the External Auditor and the Head of Internal Audit as considered necessary.

These Rules detail the membership of the Committee and what the roles and responsibilities of the Committee are

1 MEMBERSHIP BREAKDOWN OF THE COMMITTEE

Representing	Number of Representatives	Terms of Office	Method of Appointment	Voting Rights
North Northamptonshire Council	10	Annually	Determined by Council	Full Voting Rights
Independent Members	3	4 years	Determined by Council	Full Voting Rights
Total	13			

1.1 Relevant training shall be undertaken by members.

2 SUBSTITUTIONS

2.1 Named substitutes. Substitutes must have completed relevant training.

3 CHAIRMANSHIP

3.1 Term of office will be one year.

3.2 The Chair and Vice Chair shall be appointed by the Council. The Chair may be an Independent Person.

4 QUORUM

4.1 The quorum shall be a quarter of voting members.

5 TERMS OF REFERENCE

5.1 Audit Activity

- a) To approve the Council's Internal Audit Charter setting out the Internal Audit Strategy and Terms of Reference.
- b) To approve, but not direct, Internal Audit's annual plan of work and monitor unscheduled work that could potentially divert audit resources away from a plan, and monitor performance against those plans, ensuring that there is no inappropriate scope or resource limitations.
- c) To consider the Annual Report and opinion of the Head of Audit and a summary of internal audit activity and the level of assurance it can give over the Council's corporate governance arrangements
- d) To consider summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- e) To consider reports dealing with the management and performance of the Internal Audit function.
- f) To consider reports from Internal Audit on agreed recommendations not implemented within reasonable timescales.
- g) To consider the External Auditor's Annual Inspection Letter, relevant reports and the reports of those charged with governance.
- h) To consider specific reports as agreed with the External Auditor to ensure agreed action is taken within reasonable timescales.
- i) To comment on the scope and depth of the external audit work and to ensure it gives value for money.
- j) To liaise with the Public Sector Audit Appointments Ltd over the appointment of the Council's external auditor.
- k) To consider the reports of inspection agencies relevant to the Council.
- l) To suggest work for Internal and External Audit.
- m) To undertake an annual review of the effectiveness of the system of Internal Audit.

5.2 Regulatory Framework

- a) To review any issue referred to it by the Chief Executive or Corporate Director or any Committee of the Council.
- b) To monitor the effective development and operation of risk management and corporate governance throughout the Council.

- c) To monitor council policies on “raising concerns at work” and anti-fraud and anti-corruption policies including the Council’s complaints process.
- d) To oversee the production of the Council’s Statement of Internal Control/Governance Statement and recommend its adoption.
- e) To consider the arrangements for corporate governance and to agree necessary actions to ensure compliance with best practice.
- f) To consider the Council’s compliance with its own and published standards and controls.

5.3 Accounts

- a) To review the annual statement of accounts.
- b) Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- c) To consider the External Auditor’s report to those charged with the governance, issues arising from the audit of the accounts.

5.4 Risk Management

- a) To consider the effectiveness of the Council’s risk management arrangements.
- b) To review regular reports from the Corporate Risk Management to gain assurance that the Council is monitoring and managing its risks effectively.
- c) To be satisfied that the Council’s assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it.
- d) To review and approve the Council’s Strategic Risk Register annually.
- e) To report to the Executive any matter where the Committee feels that there is significant new risk that is not mitigated.

5.5 Performance

- a) The Audit and Governance Committee will carry out an annual self-assessment, including a review of these terms of reference, to evaluate its own performance and determine any action required to improve its effectiveness. The outcomes will be reported to Full Council.

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Audit and Governance Committee 12th July 2021

Report Title	Internal Audit Charter and Strategy	
Report Author	Duncan Wilkinson, Chief Internal Auditor Duncan.wilkinson@milton-keynes.gov.uk	
Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME		

List of Appendices

Appendix A – Internal Audit Charter and Strategy

1. Purpose of Report

- 1.1. This report provides a copy of the Internal Audit Charter and Strategy for approval by the Audit and Governance Committee, in line with the committee's role and responsibility for overseeing delivery of the Internal Audit service.

2. Executive Summary

- 1.2. The Public Sector Internal Audit Standards (PSIAS), define the Internal Audit charter as 'a formal document that defines the internal audit activity's purpose, authority and responsibility. The Internal Audit charter establishes the Internal Audit activity's position within the organisation, including the nature of the chief audit executive's functional monitoring relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities'.
- 1.3. Under PSIAS, the Charter should be reviewed and approved by the Council's 'Board' on an annual basis. This duty is exercised by the Council's Audit and Governance Committee.

3. Recommendations

- 3.1 It is recommended that the Audit and Governance Committee:

a) Approve the Internal Audit Charter and Strategy.

- 3.2 *Reason for Recommendations*

- *To accord with the Public Sector Internal Audit Standards (PSIAS); and*
- *Approve Internal Audit team's rights to access relevant systems, records and documentation, as required, to enable unfettered access to perform an independent assurance role.*

4. Report Background

- 4.1.1 In compliance with the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to establish a Charter which sets out its role, purpose and authority. This provides clarity and legitimacy to the role of Internal Audit in the organisation, and assists the function is operating in line with an agreed framework. The wider strategy also defines how Internal Audit will strive to deliver the most effective and value adding service to the Council.
- 4.1.2 The document directs Internal Auditors in their daily work, but also assists officers and elected Members of the Council in understanding the role of Internal Audit, how it operates and its rights of access.
- 4.1.3 The Charter has been prepared in line with the PSIAS and incorporates all relevant requirements.
- 4.1.4 The Charter and Strategy document is provided at Appendix A.
- 4.1.5 This document is to be reviewed and presented to the Audit and Governance Committee on an annual basis.

5. Issues and Choices

- 5.1 The Committee's Terms of Reference require it to oversee delivery of the Internal Audit service. The annual review and approval of the Charter and Strategy document provides an opportunity to exercise this role. The Committee may approve the document as presented; or review and request amendments, as considered necessary.

6. Implications (including financial implications)

6.1 Resources and financial

- 6.1.1 There are no resources or financial implications arising from the proposals.

6.2 Legal

- 6.2.1 There are no legal implications arising from the proposals.

6.3 Risk

- 6.3.1 There are no significant risks arising from the proposed recommendations in this report.
- 6.3.2 In delivering its services, an effective Internal Audit service should help the organisation accomplish its objectives by bringing a systematic, disciplined

approach to evaluate and improve the effectiveness of risk management, control and governance processes.

6.4 Consultation

6.4.1 The Council's s151 Officer has been consulted on the content of the Charter and Strategy. No public consultation would be appropriate.

6.5 Consideration by Scrutiny

6.5.1 Not applicable

6.6 Climate Impact

6.6.1 There are no significant climate impacts arising from the proposed recommendations in this report.

6.7 Community Impact

6.7.1 There is no distinct community impact arising from the proposed recommendations in this report.

7. Background Papers

7.1 None

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Internal Audit
Charter & Strategy

1 PURPOSE, MISSION STATEMENT AND DEFINITION

Purpose of the Charter and Strategy

1.1 The purpose of this Internal Audit Charter is to define Internal Audit's purpose, authority and responsibility. It establishes the Internal Audit activity's position within the Council and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities. The Charter and Strategy should enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Councillors and management;
- Provides an independent Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available Internal Audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the S151 officer in maintaining prudent financial stewardship for the Council

Internal Audit Mission Statement

1.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Audit

1.3 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2 CONTEXT

2.1 The Council's Internal Audit service is delivered through a shared service partnership. The partnership is between North Northamptonshire Council, West Northamptonshire Council, Cambridgeshire County Council and Milton Keynes Council; with Milton Keynes as the lead authority.

2.2 The core governance context for Internal Audit is summarised as follows:

The Accounts and Audit Regulations (2015) set out that:

A relevant authority must ensure that it has a sound system of internal control which—

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk.*

And that:

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

*A relevant authority must, each financial year—
conduct a review of the effectiveness of the system of internal control required by regulation 3;
and prepare an annual governance statement.*

The Public Sector Internal Audit Standards (PSIAS) issued in 2017 include the need for risk-based plans to be developed for Internal Audit and to receive input from management and the 'Board' (usually discharged by the Council's Audit Committee). The work of Internal Audit therefore derives directly from these responsibilities, including:

PSIAS 2010 - "The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

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

2.3 The following definitions have been applied to the PSIAS terminology throughout this document:

Terminology	Definition for North Northamptonshire Council
'Board', as per PSIAS	The Audit & Governance Committee
'Chief Audit Executive', as per PSIAS	The Chief Internal Auditor (with delegations to the Head of Internal Audit & Counter Fraud for operational delivery)
'Senior management'	Corporate Leadership Team
'Assurance services'	An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Examples include financial, performance, compliance, system security and due diligence.
'Consultancy services'	Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisations governance, risk management and control processes without the Internal Auditor assuming management responsibility. Examples include advice, facilitation and training.

3 STRATEGY

3.1 Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. Where confidence is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken. Internal Audit will be responsive to the Council's needs and the risks to which the Council is exposed.

3.2 Internal Audit is not responsible for the control systems it audits. Responsibility for effective internal control rests with the management / executive of the Council. Directors and Heads of

Service are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.

3.3 Internal Audit will provide a robust, high quality audit service that delivers honest, evidenced assurance, by:

- Focusing on what is important
Deploying its resources where there is most value aligned to the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the Annual Governance Statement.
- Being flexible and responsive to the needs of the Council
The Annual Plan will be reviewed quarterly enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and the board
- Being outward looking and forward focused
The service will be aware of national and local developments and of their potential impact on the Council's governance, risk management and control arrangements.
- Providing Assurance
There is value in providing assurance to senior managers and Members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.
- Balancing independent support and challenge
Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and residents.
- Having impact
Delivering work which has buy-in and which leads to sustained change.
- Strengthening the governance of the Council
Being ambassadors for and encouraging the Council towards best practice in order to maximise the chances of achieving its objectives, including the provision of consultancy and advice.
- Enjoying a positive relationship with and being welcomed by the 'top table'
Identifying and sharing organisational issues and themes that are recognised and taken on board. Working constructively with management to support new developments.

3.4 The Internal Audit Service maintains an ongoing and comprehensive understanding of:

- Local Government / Public Sector
- The Council and its community
- Professional Audit and Corporate Governance standards

3.5 All staff within the Internal Audit service hold a relevant professional qualification, part qualification or are actively studying towards a relevant qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.

4 AUTHORITY

- 4.1 In accordance with the PSIAS, the Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the Audit & Governance Committee, and the senior management team.
- 4.2 Internal Audit's authority is documented and defined within the Council's Constitution and Financial Regulations. Internal Audit's remit extends across the entire control environment of the Council.
- 4.3 Internal Audit has unrestricted access to all Council and partner records and information (whether manual or computerised systems), officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers without prior notice if necessary.
- 4.4 All Council contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to the Council's business held by contractors or partners.
- 4.5 All employees are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.
- 4.6 The Audit & Governance Committee (as the Board) shall be informed of any restriction unduly placed on the scope of Internal Audit's activities which in the opinion of the Chief Internal Auditor prevent the proper discharge of Internal Audit functions.
- 4.7 The Chief Internal Auditor and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 4.8 To provide for independence, the day to day management of the Internal Audit Service is undertaken by the Chief Internal Auditor who reports to the Audit & Governance Committee. This accords with the Public Sector Internal Audit Standards which requires the Chief Internal Auditor to report to the very top of the organisation.
- 4.9 The Chief Internal Auditor has direct and unrestricted access to the Council's Chief Executive, Section 151 Officer, Directors, External Audit and Audit & Governance Committee at his/her discretion, including private meetings with the Chair of the Audit & Governance Committee.

5 ETHICS, INDEPENDENCE & OBJECTIVITY

- 5.1 Independence is essential to the effectiveness of the Internal Audit service; so it will remain free from interference in all regards. This shall include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing or report content.
- 5.2 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 5.3 In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential 'conflict of interest' on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work.
- 5.4 Internal auditors will have no direct operational responsibility or authority over any of the activities

audited. Accordingly, they will not implement internal controls, 'approve' procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least two years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency.

- 5.5 The Chief Internal Auditor will confirm to the Audit & Governance Committee, at least annually, the organisational independence of the Internal Audit service.

6 HOW THE SERVICE WILL BE DELIVERED

Audit Planning

- 6.1 The audit plan guides the work of the service during the year. The planning principles are:
- Focusing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects;
 - Maintaining up to date awareness of the impact of the external and internal environment on control arrangements;
 - Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register, audit risk scores;
 - Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met which is where risk management is key;
 - Being flexible so that the plan evolves through the year in response to emerging risks and issues;
 - Providing for the delivery of key commitments, such as work done in support of the External Auditor thus reducing the external audit fee, and to deliver governance and antifraud responsibilities; and
 - Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice.
- 6.2 The number of available audit days to the Internal Audit Service will be reviewed to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards. This takes into account the fact that additional resource will be procured as and when necessary e.g. for technical IT audits, when significant resource is diverted through unplanned work. The focus on the high risk areas will reduce the overall coverage required.
- 6.3 In order to deliver the Annual Audit Plan at the required quality and professionalism, Internal Audit strive to ensure that the team has the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.
- 6.4 The breadth of coverage within the plan necessitates a wide range of high quality audit skills. The types of audit work undertaken include:
- Risk based system audit
 - Compliance audit

- IT audit
- Procurement and contract management audit
- Project and programme audits
- Fraud/investigation work
- Value for money audit
- Consultancy and advice

6.5 Internal Audit may procure external audit resource to enhance the service provision as necessary.

Internal Audit Annual Opinion

6.6 Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered through all work undertaken by Internal Audit during the year.

Conduct of work

6.7 The principles of how the Internal Audit work is conducted are:

- Focusing on what is important to the Council and in the ultimate interests of the public;
- Ensuring that risks identified in planning are followed through into audit work;
- Agreeing the scope, objectives and any limitations of audit coverage at the outset of every assignment;
- Ensuring that the right skills and right approaches are in place for individual assignments;
- Striving continuously to foster buy-in and engagement with the audit process;
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from other stakeholders where appropriate;
- Informing management of key findings at the earliest, appropriate opportunity;
- Suggesting actions that are pragmatic and proportionate to risk, tailored for the best result and take into account the culture, constraints and the cost of controls;
- Focusing, as a rule, on ensuring compliance with existing/expected processes and systems and reducing bureaucracy rather than introducing additional, unnecessary layers of control;
- Being resolute in challenging; taking account of views, escalating issues and holding position when appropriate;
- Driving the audit process by agreeing, and delivering to, deadlines and escalating non-response promptly in order to complete assignments; and
- Maintaining high standards of behaviour at all times.

Reporting

6.8 The reports produced by the service are its key output. The reporting principles are:

- Providing balanced evidence-based reports which recognise both good practice and areas of weakness;
- Reporting in a timely, brief, clear and professional manner;
- Ensuring that reports clearly set out assurance opinions on the objectives/risks identified in planning work;
- Always seeking management's response to reports so that the final report includes a commitment to action;
- Sharing reports with senior management and Members, identifying key themes and potential future risks so that audit work has impact at the highest levels; and

- Sharing learning with the wider organisation with a view to encouraging best practice across the Council.
- 6.9 A written report will be prepared and issued following the conclusion of each Internal Audit engagement, including follow up audits; unless in the opinion of the Head of Internal Audit a written report is unnecessary.
- 6.10 Each report will:
- provide an evidenced opinion on the adequacy of the governance, risk and control processes;
 - identify inadequately addressed risks and non-effective control processes;
 - detail agreed actions including explanation for any corrective action that will not be implemented;
 - provide management's response and timescale for corrective action;
 - provide management's explanations for any risks that will not be addressed; and
 - Identify individuals responsible for implementing agreed actions.
- 6.11 Senior Management shall ensure that agreed corrective actions are introduced.
- 6.12 All audits and follow ups receiving a weak or limited audit opinion will be highlighted to the senior management team, and the Audit & Governance Committee.
- 6.13 To assist the manager/reader in easily identifying the areas that are well managed and the significance of areas of concern, actions, objectives and overall assurance opinions are categorised using three key elements as summarised below (and set out in detail at Annex A):
- 1) Assess and test the CONTROL ENVIRONMENT;
 - 2) Test COMPLIANCE with those control systems; and
 - 3) Assess the ORGANISATIONAL IMPACT of the area being audited.

Actions / Recommendations

- 6.14 Actions are categorised dependent on the risk as follows:

Category	Definition
Essential	Action is imperative to ensure that the objectives for the area under review are met
Important	Requires actions to avoid exposure to significant risks in achieving objectives for the area
Standard	Action recommended to enhance control or improve operational efficiency

Follow up

- 6.15 All Essential and Important actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. The Internal Audit Service will review their role in this area with the aim of promoting the action owner to proactively inform

Internal Audit and provide evidence when an action has been fully implemented to inform the follow up process. Such an approach emphasises the need for managers to deliver required improvements without prompting, reinforcing their accountabilities.

Quality Assurance

6.16 The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards (PSIAS);
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation.

6.17 The Chief Internal Auditor maintains an appropriate Quality Assurance Framework and reports on this annually. The framework includes:

- An audit manual documenting methods of working
- Supervision and review arrangements
- Customer feedback arrangements
- Quality Standards
- Annual Internal review
- Periodic external reviews
- Performance measures, including:
 - Proportion of audit plan completed
 - Productive/direct time as a % of total time
 - Customer satisfaction levels

6.18 The completion of every assignment shall be monitored against:

- end to end time
- days taken to complete
- time between key audit stages e.g. draft issue to final report issue
- customer satisfaction

6.19 The Audit & Governance Committee, senior management and the Section 151 Officer receive regular updates on audits completed, the assurance opinions and actions implemented. Weak and limited opinion reports and key actions not implemented are discussed in more detail as appropriate with management, the Section 151 Officer and / or the Audit & Governance Committee.

6.20 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of its activity. This consists of:

- ongoing performance monitoring;
- an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards (PSIAS);
- an external assessment at least once every five years by a suitably qualified, independent assessor;

- a programme of Continuous Professional Development (CPD) for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
- the Chief Internal Auditor holding a professional qualification (current Chief Internal Auditor is a member of CIMA) and being suitably experienced; and
- encouraging, and where appropriate acting upon, customer feedback.

7 AUDIT & GOVERNANCE COMMITTEE OVERSIGHT

- 7.1 The Chief Internal Auditor will provide regular update reports to the Audit & Governance Committee to advise on the progress in completing the audit plan, the outcomes of each Internal Audit engagement, and any significant risk exposures and control issues identified during audit work.
- 7.2 The Chief Internal Auditor will also provide an annual report giving an opinion on the overall adequacy and effectiveness of the control environment which will be timed to support the Council's Annual Governance Statement. In addition the Audit & Governance Committee will:
- approve any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken;
 - approve, but not direct, changes to the audit plan;
 - be informed of results from the quality assurance and improvement programme; and
 - be informed of any instances of non-conformance with the Public Sector Internal Audit Standards.

8 ANTI-FRAUD and ASSOCIATED ISSUES

- 8.1 The Chief Internal Auditor will ensure that all work is undertaken in accordance with, and all staff are conversant with, the Council's Anti-Fraud policies and culture, including:
- Anti-Fraud and Corruption policy
 - Whistleblowing policy
 - Anti-Money Laundering Policy
- 8.2 All Internal Audit staff will be alert to possibility of fraud during assignments but auditors are not responsible for identifying fraud.

INTERNAL CONTROL ASSESSMENT

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Satisfactory	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

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

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

Where specific compliance reviews are undertaken e.g. grant certification, the following definitions are used to assess the level of compliance in each individual reviewed, albeit each certification usually requires the Chief Internal Auditor and Managing Director to formally certify compliance with grant conditions

Opinion for Compliance Audits – Levels of Compliance	
Level	Definitions
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

Audit and Governance Committee 12th July 2021

Report Title	Draft Internal Audit Plan 2021/22 and Progress Update	
Report Author	Duncan Wilkinson, Chief Internal Auditor Duncan.wilkinson@milton-keynes.gov.uk	
Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME		

List of Appendices

Appendix A – Internal Audit Plan 2021/22

1. Purpose of Report

- 1.1. This report provides a copy of the draft Internal Audit plan coverage for 2021/22 for the Committee's approval. For the Quarter 1 assignments, an update on the status of the work is provided.

2. Executive Summary

- 2.1 The Public Sector Internal Audit Standards (PSIAS), require the annual Audit Plan to be reviewed and approved by the Council's Governance and Audit Committee (defined by PSIAS as 'the Board'). The Audit Plan should be developed based upon key risks identified through consultation with senior management and the Governance and Audit Committee and informed by the Council's risk framework.
- 2.2 The Plan for 2021/22 has been split into three sections – Quarter 1 assignments which are underway to seek early assurances on key controls and policies; assignments prioritised for delivery in Quarter 2; and potential areas of coverage for Quarters 3 and 4 pending alignment with the Council's risk registers during Quarter 2. These initial plans will require ongoing review throughout the year to ensure they suitably address emerging risk areas and add the most value to the authority.

3. Recommendations

- 3.1 It is recommended that the Audit and Governance Committee:
- a) Approve the draft Internal Audit Plan coverage for 2021/22

3.2 Reason for Recommendations

- To accord with the Public Sector Internal Audit Standards (PSIAS); and
- Approve the programme of work to be delivered by the Internal Audit team in 2021/22, subject to ongoing review and prioritisation.

4. Report Background

- 4.1 The Internal Audit Plan sets out the schedule of assignments that the service will deliver during the financial year. In an average year, a full plan would be drafted for approval by the Committee before the end of March, ahead of the new financial year.
- 4.2 The Audit Plan must fulfil a number of requirements as follows:
- The plan should be risk based;
 - There should be input from senior management and the Audit and Governance Committee in ensuring the plan addresses key risk areas and adds value to the organisation;
 - The coverage must be sufficient to enable an informed Internal Audit opinion on the governance, risk and control framework at year end; and
 - Consideration should be given to consultancy assignments, whereby an audit opinion is not sought but rather independent advice and guidance is supplied.
- 4.3 For the Council's first year of operation, the work in Quarter 1 has focused on seeking early assurances over key controls, consolidation of records and policies – the scope of which has been defined with input from the s151 Officer. At the time of reporting, the majority of this work is in advanced stages of delivery and any material findings are being shared with management as they arise. These assignments are summarised in Appendix A to this report and outcomes will be reported to the committee in regular progress reporting.
- 4.3 The Council's risk registers are under development and, upon adoption, these should inform the focus of Internal Audit coverage. At this time, the prioritised assignments for Quarter 2 are based upon an assessment of risks identified to date and areas where Internal Audit require assurances. These are listed within Appendix B to this report.
- 4.4 The audit coverage for the remainder of the financial year should be reviewed in line with the development of the Council's Strategic and Directorate risk registers. An indication of areas currently planned for coverage is provided in Appendix C to this report. These are based on the professional experience of the Internal Audit management and risks that have been identified to date.
- 4.5 The Public Sector Internal Audit Standards state that the Chief Internal Auditor 'must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls'. As such, the audit plan must be subject to regular review. This is particularly relevant both at this point in the Council's development and given the wider environment in which the organisation is operating, with the recovery from the Covid-19 pandemic and the various risks/pressures faced.

5. Issues and Choices

- 5.1 The Committee's Terms of Reference require it to oversee delivery of the Internal Audit service. The review and approval of the Internal Audit Plan provides an opportunity to confirm that the Committee is supportive of the coverage and that this will provide the assurances required during the year.
- 5.2 The Committee may wish to suggest amendments to the plan

6. Implications (including financial implications)

6.1 Resources and financial

- 6.1.1 The Audit Plan is currently based on 1,675 audit days and must provide sufficient coverage in line with the PSIAS requirements. A consultation on the structuring and resourcing of the shared service is to progress in Autumn 2021.

6.2 Legal

- 6.2.1 There are no legal implications arising from the proposals.

6.3 Risk

- 6.3.1 There are no significant risks arising from the proposed recommendations in this report.
- 6.3.2 In delivering its services, an effective Internal Audit service should help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

6.4 Consultation

- 6.4.1 The Council's Corporate Leadership Team have been consulted on the coverage of the Internal Audit plan. No public consultation would be appropriate.

6.5 Consideration by Scrutiny

- 6.5.1 Not applicable.

6.6 Climate Impact

- 6.6.1 There are no significant climate impacts arising from the proposed recommendations in this report.

6.7 Community Impact

- 6.7.1 There is no distinct community impact arising from the proposed recommendations in this report.

7. Background Papers

7.1 None

North Northamptonshire Council Internal Audit Plan

2021/22



Audit and Risk Management
June 2021

1. Background

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

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

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

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

And that:

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

A relevant authority must, each financial year—

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

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

2. Internal Audit Resource

- 2.1. To enable the Chief Internal Auditor to present an annual opinion on the Council's control environment, in normal circumstances adequate resources have to be directed to completing the agreed Plan in line with a target of 95% of that plan.
- 2.2. The level of audit resource available is likely to be a mix of establishment posts and alternative provision. As at June 2021, an interim arrangement was put in place, whilst formal consultation on shared service provision is undertaken in accordance with the Future Northants Blueprint. This has meant that available Internal Audit Resource is limited to the existing staff transferred from the Sovereign Councils (former County Council) and the contracts in place for Kettering, Wellingborough, Corby and East Northants.
- 2.3. The approved Future Northants blueprint was that WNC would 'host' provision of Internal Audit for North Northamptonshire Council (NNC), within the existing shared service model provided with Milton Keynes Council and Cambridgeshire County Council. Combined with the ongoing interim arrangements this adds a layer of complexity to delivery of the service.
- 2.4. The proposed 2021/22 Audit Plan (as set out in detail at Annex A, B and C) totals 1,675 days.
- 2.5. The interim arrangements applied whilst formal consultation on a permanent new structure is pending and as per WNC and NNC agreement, the IA service:
 - 2.5.1. Applies resources previously within NNC to the NNC plan, whilst
 - 2.5.2. Completing audits on systems applicable to both Councils (West Northants and North Northants) as a single audit providing assurance to both Councils, and
 - 2.5.3. Ensuring that resources do not cross-subsidise either Council.
- 2.6. The 2021/22 Annual Plan, consistent with best practice, can be varied to reflect changing risks and pressures. The plan has been drafted considering, in particular, the continuing Covid19 pressures and the Unitary agenda. The estimate of 1,675 days is therefore considered to be a conservative estimate of the days that will be needed.
- 2.7. The plan however, provides the change control mechanism to:
 - 2.7.1. Allow focus to be reprioritised in a controlled way , or
 - 2.7.2. Agree alternative and/or additional funding to resource additional work where planned work cannot be 'sacrificed'.
- 2.8. Given the complexity of unifying multiple Councils into a single Unitary Council the risk assessment to draft the 2021/22 plan proposed in this report has sought to consider the:

- 2.8.1. Known Knowns – E.g. Complexity in administering large key financial systems across individual Councils – Council Tax, Benefits etc; and
- 2.8.2. Known Unknowns – E.g. Implementing robust, consistent controls from the collation and understanding of varying adequacy of governance from across the predecessor Councils.
- 2.9. What cannot be predicted is the Unknown Unknowns. For a stable, single Council those would be reasonably assessed as minimal risk that might be a once in decades issues eg Pandemic. For North Northamptonshire the consolidation of individual services into a single, aligned Unitary Council is considered likely to produce additional unplanned work throughout the first three years, at least.
- 2.10. Those issues have been considered when drafting the 21-22 Audit Plan and the PSIAS requirement that the Chief Internal Auditor gives specific assurance whether there is inappropriate scope or resource limitations evident that prevents the service delivering its professional requirements (PSIAS 1110).
- 2.11. PSIAS 2030 requires the Chief Internal Auditor to ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. PSIAS 2030 also requires that *‘Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board’*
- 2.12. This requires:
- 2.12.1. The mix of knowledge, skills and other competencies needed to perform the plan.
The CIA has concluded that this requirement is met by those existing resources and the recruitment to the proposed structure consistent with the Future Northants Blueprint.
- 2.12.2. The quantity of resources needed to accomplish the plan.
The CIA has concluded that this requirement is met for quarter 1, and with the approval of the 21-22 plan will be under appropriate regular review. Some concerns remain regarding resources to deliver the Q2 schedule but these are being managed closely with the S151 Officer.
- 2.12.3. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.
The CIA has concluded that this requirement is met within the limitation set out in 2.12.2 above. Available resources are prioritised to high risk issues.
- 2.12.4. The risk-based plan must explain how internal audit’s resource requirements have been assessed.

This report sets out the scope of 21-22 planned audit work and has been developed with key stakeholders including the S151 officer. In the CIA's opinion the full year plan sets out a reasonable scope to meet PSIAS requirements.

- 2.13. It is highlighted that the current interim arrangements and the uncertainties of the first year's operations within a single, new Unitary Council, provide a basis that the adequacy of Internal Audit resources will need to be kept under regular review.

3. Developing the Audit Plan

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

4. THE 2021/22 ANNUAL PLAN

- 4.1. The formation of the unitary Councils with new systems as well as continued operation of some District and Borough Council functions during the first year means the 2021/22 Audit Plan is very different in comparison to previous years audit plans. It was always likely to be different, with additional audit requirement to verify adequacy of processes as a new organisation, and to take proper account of assurances needed, given the ongoing challenges created by Covid19. Creation of the Children’s Trust as a separate entity, to provide services under a supplier/customer Service Delivery contract adds to the complexity of the plan environment.
- 4.2. During quarter one of the year, it is acknowledged that the delivery of ‘safe and legal’ for the Council will result in a necessary organisational focus of simply operating as a new Council. The ability for audits to be completed in Q1 will be limited as staff / services will probably not be able to accommodate that and/or systems will not be embedded sufficiently to test.
- 4.3. In light of this, it has been agreed with the S151 Officer that audit work for Q1 will therefore need to focus on probative assurance of initial key controls. This work will then evolve into plan work, during quarter two. The proposed annual plan of audit days is detailed in Annex A, B and C and it is to be noted that delivery of the full plan will be dependent on there being sufficient audit resource.

	Audit Days	Audit Quarter/Activity
	290	Quarter 1
	435	Quarter 2
	950	Quarters 3/4
TOTAL	1675	

Returning to an approved 2021/22 Audit Plan

- 4.4. Usually the plan is underpinned by a consultation exercise, review of the risk registers and is submitted to the Audit & Governance Committee for consideration. Any plan must be sufficiently flexible to enable assurance over current risk areas, as well as emerging risks, and those risks which are yet to be identified.
- 4.5. It has not been possible to complete a consultation exercise in creating this plan except with the Executive Director of Finance and some high level discussion at Corporate Leadership Team. Given the level of changes with any new organisation, it is already evident that the risks applicable throughout 2021/22 will continue to emerge. Any plan formalised in detail before September 2021 would be subject to significant change.
- 4.6. This is particularly relevant in year one of the new organisation. The plan set out below is therefore only indicative as it:

- Identifies the known knowns to be audited, e.g. governance and financial systems. *(20-30% of expected work, mostly key financials)*
 - Takes account of the known unknowns i.e. those new or emerging issues within an organisation. *(10-20% reflecting move to Unitary)*
 - Can be flexible for the unknown unknowns that may arise during the year. *(expected to present variable challenges consuming the majority of Audit resource to 31/3/22)*
- 4.7. Inevitably, the potential for risks and unknowns is increased during initial periods of change. The combination of four councils into one creates a material challenge to the audit regime. When combined with Covid19 pressures the audit challenges are unique, unprecedented and extremely difficult to predict / plan.
- 4.8. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation during the period of change to new Unitary and as services recover from and/or continue to address Covid19 pressures.
- 4.9. The Audit Plan is dynamic and designed to be flexible if new risks emerge. This will be tested in 2021/22. Audit service delivery will be monitored throughout the year and key issues will be reported to the Leadership Team and the Audit & Governance Committee each quarter. It is anticipated that the plan will be changed to reflect emerging risks and the scope of individual assignments reduced or the audit removed from the plan in areas where it is felt the risk impact has abated, or to reduce disruption to delivery of critical services. All proposed changes to the plan will be reported to the Audit & Governance Committee.
- 4.10. Changes to the plan will therefore be progressed and reviewed as below:
- 4.10.1. The Chief Internal Auditor and S151 Officer will agree, in principle, those changes required and amend the plan.
 - 4.10.2. Those changes will be reported (within the next periodic update) to the Leadership Team for comment / endorsement.
 - 4.10.3. Those changes and CLT comments will be reported to the Audit & Governance Committee for comment / endorsement.
- NB Best practice determines that the CIA (in consultation with the S151 Officer) should retain professional control of the Annual Plan and the above provides a change control mechanism to ensure that best practice is achieved. In reality comments / feedback from CLT and AGC will almost certainly be reflected in revised plans whilst ensuring Internal Audit is able to discharge its professional duties.

- 4.11. The quarter one schedule of work for NNC will be delivered from a combination of the Audit Team resource, resources from Shared Service and resource from the existing contracted resources.

Emerging Plan Pressures

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

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

4.13. **Interim Arrangements**

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

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

This is a substantial piece of work and the CIA is attending monthly meetings with the new Council S151 Officers to progress these issues so that they can be submitted into the relevant decision- making bodies.

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

As at 1st December 2020 the LGSS model closed. Some services were repatriated into their host Councils (i.e. disaggregated). Other services were agreed within the Future Northants Blueprint that would continue delivery to both NNC and WNC as shared services under a lead authority model (ie some services managed and led by NNC, some by WNC, some by Milton Keynes Council and others by Cambridgeshire County Council.

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

Fraud Referrals and Outcomes

- 4.15. **Fraud referrals:** Due to the volume of referrals and the wide range of issues raised, risk assessments are conducted in order to prioritise resource or transfer these to other appropriate bodies such as the Department for Work and Pensions (DWP). Some

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

4.16. Number of cases referred, number of cases closed and the outcome of investigations undertaken by the Fraud team brief details of ongoing investigations are reported on to Audit & Governance Committee on a quarterly basis as part of the Internal Audit progress Update

4.26 **National Fraud Initiative 2020/21:** Internal Audit and the Counter Fraud team also support the Council in assisting with the work on the National Fraud Initiative (NFI), highlighting the increased exposure to fraud associated with the C19 situation which has been actively targeting councils grant application schemes and other cyber fraud.

5 AUDIT METHODOLOGY

5.1 As set out above the Control Assessment methodology used to form the required Audit Opinion has three key elements:

- Assess and test the CONTROL ENVIRONMENT,
- Test COMPLIANCE with those control systems, and
- Assess the ORGANISATIONAL IMPACT of the area being audited.

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

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Satisfactory	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

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

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

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

6 RISK REGISTER

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

2021/22 Draft Audit Plan Q1, including progress to date

Audit	Scope / coverage	Audit days		Status
Governance - Supporting decision making and ethical standards				
Risk management strategy	Supporting development of a strategy and facilitating the drafting of risk registers.	5		Strategy adopted. Risk management workshop facilitated in June 2021 and draft register produced.
Key policies and procedures coverage	Review to ensure that policies and documents have been prepared and approved by North Northamptonshire Council to ensure legal and other regulatory compliance.	10		<i>Fieldwork underway</i>
Assurance opinions and annual reporting for sovereign councils	Production of Annual Internal Audit Report and AGS 2020/21 for sovereign councils.	25		Complete
		Sub Total	40	
Key Financial Systems - Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits focus on the systems with the highest financial risk.				
General ledger / main accounting systems	To provide assurance that the controls in place over activity through the general ledger are adequate in design and function appropriately in practice.	20		<i>Fieldwork underway – testing on controls accounts complete</i>
Accounts payable	To provide assurance on adequacy of controls over supplier data management and payments.	20		<i>Fieldwork underway</i>
Government procurement cards	To provide assurance that effective controls are in place for spend incurred through GPC.	10		<i>Draft report issued</i>
Debt recovery	To provide assurance on the effectiveness of controls over debt collection.	20		<i>Fieldwork underway</i>

Audit	Scope / coverage	Audit days		Status
Non ERP spend	To provide assurance over use of manual interface payments.	10		<i>Fieldwork underway</i>
Bank reconciliations	To provide assurance on the adequacy of robustness of arrangements for ensuring timely and appropriate reconciliations.	10		<i>Fieldwork completed</i>
Treasury management	Review of effectiveness of controls over treasury management activities - to be revisited later in year for further testing.	10		<i>Fieldwork underway</i>
Cashflow from sundry income	Review of controls over tracking income flow from source to ERP.	20		<i>Fieldwork underway</i>
Payroll	To evaluate the effectiveness of the key controls for the payroll system and provide some assurance (given the limited period in operation) of the processing of payroll transactions. Transactions to be also checked later in the year.	20		<i>Fieldwork underway</i>
IT financial controls	Checks on effectiveness of system controls over data integrity, completeness and accuracy.	10		<i>Fieldwork underway</i>
Year-end accruals	To ensure that systems are in place to effectively identify accruals from legacy Councils so that such activity is not included in the Council's accounts and financial reporting.	10		<i>Fieldwork underway</i>
Legacy bank accounts	A review of the procedures adopted by North Northamptonshire Council for consolidating the bank accounts of the legacy Councils from which it has been formed.	11		<i>Fieldwork complete</i>
Financial decision making	To provide assurance that effective systems are in place to ensure that key financial decisions are approved in line with Council rules and procedures.	15		<i>Fieldwork underway</i>
Sub Total			186	

Audit	Scope / coverage	Audit days		Status
Key corporate controls - providing assurance over design and compliance with key internal controls				
Consolidation of key records	Review of adequacy of the procedures adopted by North Northamptonshire Council for consolidating important underlying records of the legacy Councils from which it has been formed.	10		<i>Fieldwork underway</i>
Establishment control	Assurance over arrangements for ensuring posts/grades/pay rates are in line with agreed guidance.	5		<i>Fieldwork underway</i>
Covid-19 grants audit	Testing on the payment of these grants and independent verification.	16		<i>Fieldwork underway</i>
Covid-19 grants - counter fraud consultancy support	Support/advice from counter fraud officers on post payment fraud checks, as needed.	9		As requested
Employee records / checks	Adequacy of system for ensuring appropriate recruitment checks are undertaken and properly documented – DBS/right to work/qualifications etc. for staff transferring to new Council.	10		<i>Fieldwork underway</i>
		Sub Total	50	
Audit & Governance Committee / senior management support and liaison				
Management / committee reporting		4		
Ad hoc support and guidance		10		
		Sub Total	14	
Total				
			290	

2021/22 Draft Audit Plan Q2

Audit	Scope / Coverage	Audit days	
Governance			
Financial management	Work will be based on two reviews (Summer and Winter 2021) to assess budgetary control arrangements are in place and working effectively. To base testing on compliance with the CIPFA Financial Management Code.	10	
COVID-19 grants	Grant post payment checks and verification of sample of Restart grants for central government by 31st August 2021	10	
Risk management audits	Work will be based on two reviews (Summer and Winter 2021) to assess the effectiveness of the risk management arrangements in place during 2021/22.	10	
Risk management – facilitation	Facilitation / support to Corporate Leadership Team	5	
		Sub Total	35
Key Financial Systems - Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits focus on the systems with the highest financial risk.			
Debt recovery	Sample testing throughout the year - Q2 coverage.	5	
Bank mandate checks	To provide assurance over the verification of bank mandate requests for both suppliers and payroll - in light of fraud trends.	10	
Council Tax / Business rates	Split into two audits - Q2 to provide assurance over design of controls Q4 to focus on compliance	25	
Housing and Council Tax Benefits	Split into two audits - Q2 to provide assurance over design of controls Q4 to focus on compliance	25	
Legacy debts	To provide assurance over recovery arrangements for sovereign councils' debts and accurate matching of income to monies due.	20	
		Sub Total	85

Audit	Scope / Coverage	Audit days	
Adults, Communities and Wellbeing Priorities and Risks			
Safeguarding vulnerable adults	To provide assurance over arrangements in place to ensure consistent and robust safeguarding arrangements for vulnerable adults.	15	
Financial operations	Including financial assessments and client contributions.	20	
Procurement and contracts audit	Cyclical audit to focus on one of the top three contracts in the directorate.	15	
Housing allocations and rents	To provide assurance over controls operating over the allocation of housing and rent collection – including counter fraud controls.	25	
		Sub Total	75
Place and Economy Services Priorities and Risks			
Asset / property management	To include leases in place for commercial properties and management of tenancies; and statutory inspection regimes for corporate properties.	20	
Planning / development control	To provide assurance over consistent and efficient handling of applications.	20	
Section 106 / CIL contributions	To review s106 monitoring mechanisms and recovery of monies due.	20	
		Sub Total	60
Enabling and Support Services Priorities and Risks			
ICT	Cyber security (Quarterly testing)	5	
	ERP interfaces	10	
	Access control	10	
	Disaster recovery	15	
Procurement	A review of the Council Procurement Rules and assessing compliance with these across the Council (cyclical testing throughout year)	10	
		Sub Total	50
Grant Certification - Internal Audit is required to certify a range of grants over the year			
Disabled Facilities Grant	September 2021 certification	10	
Bus Services Operator	September 2021 certification	10	
Local Transport Capital Funding	September 2021 certification	10	

Audit	Scope / Coverage	Audit days	
Sub Total			30
Anti-Fraud and Corruption - A programme of proactive and reactive activity to support the Council's response to the risk of fraud.			
Fraud Risk Assessment		10	
Proactive fraud reviews / NFI support		15	
Housing fraud - proactive		10	
No Recourse to Public Funds - proactive		5	
Reactive Investigations		15	
Sub Total			55
Advice and Reporting - To effectively manage the service time needs to be allocated to ensure that management activity can be completed.			
Advice and guidance		10	
Follow up of agreed actions		5	
Inherited action follows ups		15	
Management reporting		5	
Audit & Governance Committee reporting		5	
Audit & Governance Committee support / training / liaison		5	
Sub Total			45
Total			
			435

2021/22 Draft Audit Plan Q3/4

Audit	Scope / Coverage	Audit days	
Emerging Risks / Priorities			
Transformation	To assess the strategy for moving from 'safe and legal' and to assess a sample of projects to ensure they are well management and result in the Council's objectives being achieved.	25	
Risk Management Audits	Work will be based on two reviews (Summer and Winter 2021) to assess the effectiveness of the risk management arrangements in place during 2021-21.	10	
		Sub Total	35
Key Financial Systems - Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits focus on the systems with the highest financial risk.			
Accounts receivable	To provide assurance over the accurate and timely invoicing and processing of income for sundry debts.	15	
Debt recovery	To provide assurance over the collection of sundry debts and compliance with debt recovery policies.	10	
Accounts payable		15	
Payroll		20	
Safer recruitment		10	
General ledger	Substantive testing - Suspense codes, journals, control a/cs etc	15	
Bank reconciliations		10	
Treasury management	Transaction testing in Q4	15	
Council Tax	Transaction testing in Q4	25	
Business Rates	Transaction testing in Q4	25	
Housing and Council Tax Benefits		25	

Audit	Scope / Coverage	Audit days	
Local Finance Systems	To focus on local systems where activity generated and processed by centralised team within Council or by another Council - Income activity, purchasing (i.e. petty cash, GPC, spend activity processed outside of ERP) and payroll.	15	
Sub Total			200
Adults, Communities and Wellbeing Services Priorities and Risks			
Adult Social Care	Focus to be determined – i.e. Demand Management / Assessment of Care Needs	20	
Guardianship and Appointees		10	
Housing	Lettings & voids	25	
	Landlord Health and Safety	25	
	Arrears	25	
	Homelessness and temporary accommodation	20	
Procurement and Contracts Audit	An audit of the three largest contracts in the directorate	30	
Sub Total			155
Children's Services Priorities and Risks			
School audits	Thematic review	20	
Children's Trust commissioning	Work will be based on two reviews (Summer and Winter 2021) to assess that effective arrangements are in place to monitor and manage the provision of Children's Services to ensure the Council's statutory responsibilities are met.	20	
Sub Total			40
Place and Economy Services Priorities and Risks			
Capital projects	To be determined.	20	
Car parking / cash handling	Including the consolidation of parking income within ERP and cash handling.	20	
Leisure service contracts	Delivery, viability and consolidation.	20	

Audit	Scope / Coverage	Audit days	
Taxi licensing	Decentralised audits plus a consolidation of consistent and legal decisions.	15	
Procurement and contracts audit	An audit of the largest contracts in the directorate (waste / highways maintenance).	30	
Sub Total			105
Enabling and Support Services Priorities and Risks			
ICT	Cyber Security (Quarterly)	15	
	Access control	10	
Pensions		10	
New IT systems - Adults/children		20	
Risk management	Facilitation / support to Leadership Team	10	
Corporate Health & Safety		15	
Information Governance	A review of key policies / procedures and assessing compliance with these across the Council.	15	
Human Resources	A review of key policies / procedures and assessing compliance with these across the Council.	15	
Partner assurance contract management	Arrangement for monitoring delivery of services by WNC.	20	
Customer services		15	
Procurement compliance	A review of the Council Procurement Rules and assessing compliance with these across the Council.	15	
Sub Total			160
Grant Certification - Internal Audit is Required to certify a range of grants over the year.			
Home to School Transport		10	
Test and Trace		10	
Troubled families		10	
Contingency		20	
Sub Total			50

Audit	Scope / Coverage	Audit days	
Anti-Fraud and Corruption - A programme of proactive and reactive activity to support the Council's response to the risk of fraud			
Annual review of key policies		5	
National Fraud Initiative		30	
Proactive fraud reviews		20	
Housing fraud proactive		10	
No Recourse proactive		10	
Reactive investigations		50	
		Sub Total	125
Advice and Reporting - To effectively manage the service time needs to be allocated to ensure that management activity can be completed.			
Advice and guidance		15	
Follow up of agreed actions		15	
Inherited audit action follows ups		5	
Management reporting		15	
Audit & Governance Committee reporting		10	
Audit & Governance Committee support		10	
Audit Plan 2022/23		10	
		Sub Total	80
Total			950

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NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

12th July 2021

Report Title	Strategic Risk Register
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1. Purpose

- 1.1. The purpose of this report is to outline a first draft NNC Risk Register collating the various information maintained by previous Councils, for the Committees discussion and comment.

2. Recommendations

- 2.1. It is recommended that the Risk Strategy and Strategic Risk Register be noted.

3. Issues and Choices

3.1. Report Background

- 3.1.1. A draft Strategic Risk Register (SRR), developed with the Leadership Team, is set out at 3.2.7 below identifying 15 strategic risks.
- 3.1.2. This draft has been developed from relevant information previously maintained by the North predecessor Councils.
- 3.1.3. A Risk Management Strategy was adopted by the North Northamptonshire Shadow Executive in February 2021 to provide the framework for good risk management across the Council and the 1st draft SRR has been prepared consistent with those requirements. The Strategy is provided at Annex A.
- 3.1.4. Whilst a Strategic Risk Register has been drafted from the risk information held by each Council, the risk cycle (as set out in the Risk Strategy) will realistically need to operate throughout 2021/22 and evolve the Risk Register during the year.
- 3.1.5. It is essential to note that Internal Audit supports the Council in its consideration of risks. Internal Audit only facilitates the assessment of risks by the Council. That facilitation does NOT represent an audit opinion of those risks.

3.2. Issues and Choices

- 3.2.1. It is recognised that the approach to risk management should influence organisational culture (ie prudent management of risks) and reflect organisational needs (ie proportionality). The Risk Strategy supports the organisation through a structured and proportionate approach to considering risk via the Council's management hierarchy, leadership team and Committees including the visibility of the key risks managed.
- 3.2.2. The assimilation of risks documented across all the predecessor Councils is difficult given the volume of information, the differing priorities of each Council and the different approaches adopted. Whilst the NNC SRR has been formulated as set out at 3.2.7, its content and the distillation of operational / directorate risks will, in reality, be an evolving process over at least the first year of operation to reflect emerging risks and risk appetite.
- 3.2.3. The Strategy will also be kept under review during that period and may need amendment during the year before it can safely be reviewed on an annual basis.
- 3.2.4. Relevant issues to highlight from the Strategy influencing the development of SRR are:

1) Strategic / Corporate Risks vs Operational Risks

Whilst there is overlap between Strategic and Operational risks that distinction provides a simple filter to define what risks should be managed by the Senior Management Team / Committee / Cllrs and those that should be managed at an operational level.

Strategic Risks – those issues that impact on multiple services (possibly the whole Council), over multiple years. If those issues are not effectively managed they could impact the whole Council. Eg whilst general reserves provide a 'safety net' for any single financial year the failure to manage finances over the medium term would affect all Council services and activities.

Operational Risks – those issues, whilst significant, that would impact only within a single service area and/or a single financial period. Eg a Service overspending its budget in a single year.

2) Proportionate Review

The Strategy sets out key steps within the risk management process designed to apply a proportionate approach that requires the formal, periodic risk assessment and management of Strategic Risks, Key risks within Directors areas of responsibility and Project risks.

Other risks can be formally recorded but the above hierarchy seeks to promote a focus on the KEY risks to avoid the necessary focus on those being 'lost' within excessive detail.

3) Software

The shared Internal Audit service offers free use of a Risk Management Software package called Grace. The SRR has been used to create the 1st draft SRR within Grace which can now be used by risk owners to maintain that information.

4) Risk Ownership

A key concept in effective risk management is the ownership of individual risks. Whilst Internal Audit supports services in their assessment of risk, the Audit service cannot own or manage those risks nor be responsible for updating those risks etc.

The Leadership Team nominate an admin post to liaise with Directors at least quarterly to help update of risks and also liaise with Internal Audit if any support is needed.

5) Operational Risks – ‘Top 3’ Director Risks

The Council can require the risk assessment of all potential risks across all services and activities but that is not recommended as it overwhelms the process with unnecessary bureaucracy.

Assistant Directors / Heads of Service are developing their Top 3-5¹ risks to enable each Director’s management team to agree a Director “Key Risks” risk register. This provides the Director with assurance that each operational area has assessed and documented the risks within their area.

This list of Key Risks would be revisited and reported quarterly to Leadership Team and Audit Committee (and Executive) – **but given the pressures across the Council in its first year it is not realistic to expect those to be fully developed in the first iteration and therefore will be developed over the first year.**

3.2.5. The four District Councils and the County Council applied different methodologies to the structure of their risk registers and their management of those risks.

- a. Corby maintained a 3x3 matrix (Low, Medium, High) recording 45 strategic risks and 8 operational risks as at Sept 2019.
- b. East Northants maintained 4x4 matrix (numerical ie 4x4=16) recording 24 ‘corporate’ risks with very detailed reporting on individual ‘very high’ specific threats / risks as at Sept 2020
- c. Kettering maintained a 6x6 matrix (numerical) recording 18 corporate risks as at July 2019.
- d. Wellingborough maintained a 4x4 matrix (numerical) recording 30 corporate risks as at Nov 2020
- e. County Council maintained a 5x5 matrix (numerical) recording 11 risks

¹ The term Top 3 is used to describe a focus on key risks. If there is only a single key risk a list of 1 is perfectly acceptable. If 4 or 5 risks should be highlighted that too is acceptable.

3.2.6. A review of those risks maintained by the previous Councils shows 2 distinct approaches (1) Focus to avoid 'failure' (2) Focus on the achievement of objectives.

Kettering applied the 2nd approach whilst Corby, East Northants, the County and Wellingborough applied the 1st approach.

Within enterprise risk management the term risk is used to describe uncertainty and describes both threats and opportunities. The common use of the term risk in terms of just negativity (ie as a threat or danger) can create confusion.

There are many definitions of 'risk' in literature and different professional workstreams. The most recognised at international level is considered to be the ISO 31000:2018 standard which defines risk as:

"effect of uncertainty on objectives

An effect is a deviation from the expected. It can be positive, negative or both, and can address, create or result in opportunities and threats.

Objectives can have different aspects and categories, and can be applied at different levels.

Risk is usually expressed in terms of sources or potential events (triggers), their consequences and their likelihood."

ISO 31000:2018 also defines risk management as:

"coordinated activities to direct and control an organization with regard to risk"

The more common approach of considering risk purely as a mitigation / avoidance of failure is valid and useful but an approach that is structured on both the achievement of objectives and the reduction of threats is recommended. An example to illustrate is given below.

A focus on, for example, the 'failure of business continuity arrangements' creates emphasis that on whether plans are in place or not. That creates a danger that the Council may conclude this risk is effectively managed from an overly simplistic assurance that every service has a business continuity plan. Wider, general focus on the avoidance of failure also quickly creates a risk averse culture.

A focus on 'Ensuring key services have effective BCP's to maintain services' achieves better emphasis as it 'forces' the title to explain why BCPs are a priority i.e. proportionality for *key* (not all) services and the purpose of the plans is to ensure services can be proportionally maintained when threatened by various factors, for example:

- (a) The need to define key services, as opposed to enforcing a one size fits all requirement across every service
- (b) The need to define and agree recovery timeframes to properly prioritise service recovery ie not everyone at once
- (c) The need to ensure plans support service delivery not just IT recovery, office availability etc

3.2.7. The 1st draft SRR containing 15 draft Strategic Risks are set out in the table below. These risks were highlighted from predecessor Council information and have been reviewed and agreed through a CLT Risk Workshop on 16th June 2021.

NNC				
5x5 Numerical Likelihood x Impact				
	Risk / Aim Title	Score	Comments	Risk Owner
1	Assurance the Childrens Trust is delivering to the agreed standards (Intelligent Client)	25 5x5	An effective Intelligent Client as specified within the MOU. Score reflects these assurances are untested Whilst expected controls are known the Council will need to verify their robust application and there are also assurances needed regarding the dependency between N&W Councils and specifically the support services delivered to the Trust by West Northants, that NNC has limited influence. It is highlighted that possibly this risk will evolve into 2 separate risks (1) Trust delivery (2) shared risk between West and North	Cathy Hadley
2	Statutory Compliance across all services	15 3x5	Assurances for statutory compliance across all services / activities and monitoring of legal action taken against the Council. Score reflects that services are experts in each area, supported by legal services and the Unitary 'safe and legal' preparations.	Adele Wylie
3	Robust protections in respect of Cyber Security Confidential Risk		This risk is confidential to protect system resilience. Its presence on the Register reflects the importance of this issue. It does NOT represent that weaknesses are evident.	
4	That key services have robust and effective resilience arrangements in place (including Emergency Planning and Business Continuity)	25 5x5	Identification of key front line services and their processes in place to provide confidence they can survive service specific interruption (BCP) and major incidents (EP). Score reflects the need for NNC to obtain specific assurance and assessment of its key services and the robustness of their resilience plans.	George Candler

5	That Capital and Revenue projects apply good project management standards and practices.	16 4x4	Capital and Revenue project management systems Score reflects project management controls are long standing established concepts but not yet assessed as a single 'programme' of coordination	Lisa Hyde / George Candler
6	Safeguarding vulnerable people	20 4x5	(Linked to CT) but also those provisions that give assurance Council processes are effective in safeguarding all vulnerable people that are know to us. Score reflects the need for Leadership team and Committee to quickly be familiar with the robust measures already in place	David Watts
7	Sustainable Finances (medium Term)	25 5x5	Corporate Medium term financial planning (including reserves) Score reflects the consolidation unknowns for 3-5 year local government finances and regional issues.	Janice Gotts
8	Sustainable Finances (21/22)	25 5x5	Single year systems to establish budget structures and compliance including periodic budget forecasting Score reflects the application of new financial controls across multiple services. Controls within ERP considered good but their compliance	Janice Gotts
9	Effective Information Governance across the Council including compliance with all legislative requirements.	16 4x4	Data Protection Act and GDPR provisions as well as security provisions regarding data processing, retention and disclosure (eg FOI). Score reflects probable robust application of these concepts within individual councils and their consolidation within NNC for 21/22 Reputational threats plus positive use of information to support the transformational agenda	Adele Wylie
10	Effective and robust contract management (including accurate contracts register, contract manager responsibilities and the procurement cycle)	20 4x5	A focus on the commissioning to meet the Councils (ie service) needs and assurances that robust contract management is in place for all key contracts. Score reflects the need to quickly consolidate assurances regarding every key contract	Janice Gotts
11	Organisational Capacity	25 5x5	An initial focus on effective HR provisions to recruit and retain needed skills across the Council, however the risk is wider than simply HR issues eg enabling wider capacity – IT etc, transformation. Score reflects the strong HR presence and compliance needed to ensure organisational memory and skills are maintained in first few years.	Adele Wylie
12	The Councils dependency on hosted and shared services provided to NNC by WNC.	25 5x5	Whilst this overlaps with Organisational Capacity, CLT agreed this requires an individual focus until assurances are evident. The score reflects the arrangements are new and untested, including those measures allowing NNC to secure improvements if required.	Adele Wylie

13	Legacy Issues	25 5x5	Historic and Legal issues that the Council inherits from predecessor Councils. Score reflects that some issues are already known (and being managed) with a probability that new issues will emerge within the first 1-3 years of the Council.	Adele Wylie
14	Consolidation (and/or dis-aggregation) of all services into the new Unitary delivery.	25 5x5	This risk reflects both the known consolidation and transformational work identified and also the migration over time to transform and improve services as a new Unitary Council.	Rob Bridge
15	Pandemic Impacts across all services	20 4x5	A recognition that the impacts of the Pandemic across services managed by predecessor Councils and its continued impacts requires CLT oversight. This is a 'place holder' risk for CLT to develop and manage this issue within the Risk cycle to determine whether it needs to be a separate Strategic Risk or is better managed within operational risk management in services.	TBC

3.2.8. The above 15 risks consolidate risks separately listed by each Council and those that are considered best strategically managed within a single theme.

Illustration : Sustainable Medium Term Finances

This risk is best managed at a strategic level as it requires a shared organisational commitment and understanding to achieve confidence that the Council's financial plans are sustainable over a 3-5 year period.

This risk consolidates predecessor Council risks listed as below:

Corby risks

- Investment Portfolio income
- Business Rate Funding
- Capital Receipts
- Asset Sinking Fund
- Commercial Revenues
- Planning / BC income targets
- Interest Rate increases
- Failure to deliver target savings

ENC

- Fraud losses
- Medium term financial strategy assumptions prove inaccurate

Kettering

- Commercial Strategy
- Unexpected Budget pressures
- Delivery of a balanced budget

Wellingborough

- Lack of Money
- Lack of robust financial systems

County Council

- Finances not sustainable

3.2.9. A few predecessor risks were considered no longer relevant, at least in their prior form and content. These include:

- Brexit (Wellingborough, ENC)
- Local Government Reform (various)

E.g. The uncertainties for LGR listed by predecessor Councils are now largely resolved and the NNC Risk Register assesses these issues within risks 13 and 14 above as Legacy issues and consolidation / transformation of services within the new Council.

4. Implications (including financial implications)

4.1. Policy

4.1.1. The Strategy and draft SRR provides the governance framework for risk management across the Council.

4.2. Resources and Risk

4.2.1. The adoption of the Strategy adds no cost specifically as risks must be effectively managed and reported as part of good governance. The report sets out a proportionate approach and is the means by which the Council manages its risks.

4.2.2. The SRR does require quarterly review and updating however this is considered both proportionate and part of routine operational management.

4.3. Legal

4.3.1. None

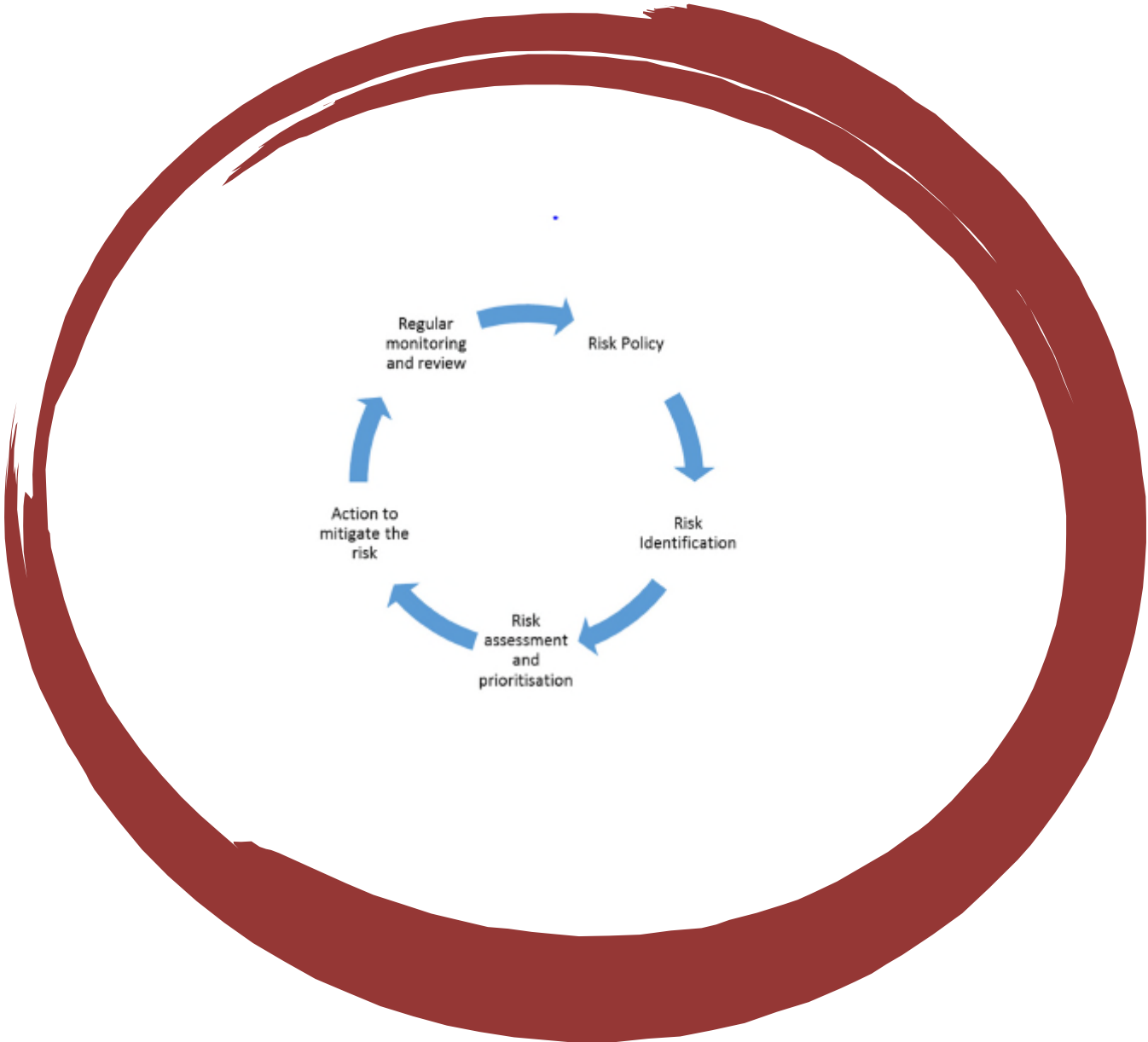
4.4. Equality and Health

4.4.1. None

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

Risk Management Strategy

Strategy Owner
Duncan Wilkinson - Chief Internal Auditor



North
Northamptonshire
Council

Key Document Information

Owner's name	Janice Gotts, Executive Director of Finance
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Review process/timetable	Reviewed biennially by Corporate Leadership Team

RISK MANAGEMENT

This document outlines the Council's commitment to managing risk in an effective and appropriate manner. It provides guidance to ensure the management of risk is a routine effective process for all services.

"The Council is clear in its ambitions to be a place of opportunity, an affordable place and a healthy place. We are committed to ensuring that risks to the effective delivery of its services and achievement of its objectives are properly and adequately controlled. Effective management of risk will enable the Council to maximise its opportunities and enhance the value of services it provides to the community. The Council expects all officers and members to have due regard for risk when carrying out their duties."

CE Signature

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1 Introduction (why we do it)

A risk is an uncertain event which, should it occur, will have an effect on the achievement of objectives.

There are many factors which might prevent the Council achieving its plans. We therefore adopt a risk management approach in all of our key business processes. This approach is a fundamental element of the Council's Code of Corporate Governance. The process is designed to identify and prioritise risks to the achievement of the Council's policies, aims and objectives; to evaluate the likelihood and potential impact of those risks being realised; and to manage them efficiently, effectively and economically.

There is an ongoing requirement from the Accounts and Audit Regulations to produce an Annual Governance Statement which sets out the processes we have in place for managing the significant risks to the Council. This includes the Risk Management Strategy.

We are accountable to the Audit Committee for the way in which we implement risk management. We need to continue to demonstrate that we have a structured approach,

It is important to recognise that the Council is not seeking to eliminate all risk, as this would not be a cost effective use of scarce resources, but instead to manage risk in a proportionate manner relative to the severity of the risk.

This strategy documents details the Council's risk management approach and the practices required to make it work.

2 The Benefits of Risk Management

Risk management means more than preparing for the worst, it also means taking advantage of opportunities to improve services or to reduce costs. Benefits are:

- Provides early warning on key / emerging matters to enable transparent, timely decision-making and intervention at appropriate levels;
- Improves decision making at all levels of the organisation allowing intelligent 'informed' risk-taking
- Focuses efforts – helps prioritise
- Improves outcomes leading to the achievement of the Council's objectives
- Protect assets, people and the Council's reputation;
- Supports consistent good governance and internal control;
- Allows better informed financial decision making leading to greater financial and budget control.
- Helps stakeholders understand those issues that the Council cannot control

3 Risk Management Process

3.1 Risk Recording

In broad terms risks are split into three categories:

- Corporate – strategic risks relating to the long-term goals of the Council.
- Directorate – key risks specifically relating to the delivery of services within each directorate
- Project – consideration of the risks occurring as a result of the Council’s involvement in specific initiatives.

The Council uses a risk management software system called GRACE to record all Corporate risks, the top 3 Directorate risks and where appropriate, service and project risks. It is accessible here: [GRACE](#)

If you require access to the System please email Duncan.wilkinson@milton-keynes.gov.uk or ring 01908 252478 or email Internal.Audit@milton-keynes.gov.uk .

3.2 Risk Identification

Identifying risk is often the most difficult aspect of risk management. Risk identification should include consideration of any factors, events or circumstances that may have an effect on the achievement of objectives.

Risks are best identified by means of a management level ‘risk workshop’ where each team member is able to identify their perspective of risk without influence from others, the outputs from this process are then subject to full team review to give a consensus on the main risks faced by that team. Other risk identification approaches can also be effective such as open discussion at team meetings.

Further guidance and support on the risk identification process can be obtained from the Chief Internal Auditor.

Officers and Councillors have various responsibilities in respect of risk management and these can be found in **Appendix 1**.

To assist risk identification, **Appendix 2** lists some examples of the types of risks which might be faced. It also gives an example of controls that could be applied to mitigate a risk. It is simply a guide and is not exhaustive.

3.3 Trigger, Consequence and Likelihood

Trigger

At the point when risks are being identified, the possible triggers and the likely consequences of each risk should be very clearly articulated. *A trigger is an event or condition that causes a risk to occur.* It is something specific, that if it happens causes either the risk to crystallise (ie impact the Council) and/or a need to re-consider our risk assessment of that area.

By identifying the triggers, we are better able to identify any controls or mitigating actions necessary to prevent the risk occurring and to recover quickly should that risk occur.

Consequence

This is the impact on the Council IF the trigger happens and/or if the issues, mitigations or controls within that area are not effectively managed. Consequences are mostly negative but can be positive, for example if we manage this well we will secure £x additional funding.

These are scored

Likelihood

Likelihood factors are those controls and processes that manage an area of risk. Examples include:

- Budget management and forecasting
- Pre-employment checks
- Business Continuity plans

If these controls are robust and work effectively then they reduce the probability of a trigger or other factor causing the documented consequence. If these controls are absent or work ineffectively then the probability increases that the documented consequence will occur and cause greater problems.

3.4 Risk Ownership

The effective management of risk requires that each risk should have a named owner. Ownership should be at individual officer level (post title) and not team level.

3.5 Risk Escalation

Risk should be managed at the lowest appropriate level of management. If it is considered that a risk identified at one management level cannot be effectively managed at that level, the risk should be escalated up the management chain until it reaches the level at which it can be effectively dealt with.

3.6 Risk Scoring

In order to assess the impact of risk in a consistent manner a scoring methodology has been adopted which takes account of the 2 distinct aspects of risk:

- The likelihood of the risk occurring
- The consequence should it occur

NB Triggers are not scored because they either occur or not.

The scoring methodology is expressed in the corporate 5*5 scoring matrix (**Appendix 3** provides further detail). The matrix itself is supported by descriptors, over 5 elements, for the impact element of the risk (**Appendix 4**). The impact score selected will be the highest score for any of the descriptor elements.

The risk will be scored in 2 stages:

- at raw risk level, i.e. an initial base level which ignores any controls which might already be in place
- a residual level which will take account of any controls already in place

The identification of raw risk provides the benefits of:

- Providing a listing of all major risks faced, regardless of how well they are being managed in practice
- Recording the key control framework for all major risks, which risk owners have responsibility for ensuring are operating effectively

3.7 Risk Mitigation (Controls)

Any mitigation already in place and known to be operating effectively should be identified. These are input into Controls section of Grace

Risks can be mitigated in the following ways:

- **Tolerate** (do nothing as the risk impact is low or the cost of mitigation is not proportionate to the cost of the risk occurring)
- **Treat** (implement controls)
- **Transfer** (for example purchase insurance to transfer the cost of occurrence)
- **Terminate** (stop the activity if it's too risky)

The net effect of these mitigation types against the raw risk level, is to reduce the risk score (and lower the Council's exposure) to a residual exposure of risk:

- **Exposure:** When the above mitigating activities have been applied to the raw risk, the Council is left with the level of exposure as currently assessed. That allows the risk owner (and the Council) to assess whether it is willing to accept that level of risk or needs to reduce exposure further.

3.8 Action Planning (including risk appetite)

The residual risk score should be evaluated and an assessment made if this level of risk is appropriate/acceptable. If it is an acceptable level of risk no actions are needed.

A target score should be agreed by the risk owner. This describes the 'risk appetite'. Each Department/Service Group/Project Board must define how much risk they are prepared to accept in order to achieve their objectives. This defined risk appetite will be recorded in the form of the target score.

Where that score is the same as the residual risk score, the level of risk is being assessed as appropriate / acceptable and no actions are needed.

Where that score is less than the residual risk, it is highlighting that further work is needed to mitigate / manage that risk to reduce the Council's exposure and Actions should be inserted that aim to achieve the target score / risk appetite.

Actions must be assigned to a named owner and an achievable specified target date for completion set. It is unacceptable to set a target date of 'ongoing' as this does not facilitate the effective management of action delivery.

Effective Risk Management is demonstrated (at its simplest) when

- ***Risks are assessed accurately***
- ***Actions identified to improve / reduce risk to an agreed level (the risk appetite), or***
- ***It is evident the risk appetite is achieved via the documented controls.***

In determining the mitigation required to manage a risk, regard must be had to the proportionality of the cost of the mitigation to the cost impact if the risk occurs, for example if the cost of the control exceeded the cost of the impact.

3.9 Risk Monitoring

A review of risk should be undertaken on a quarterly basis at all levels of management, i.e. CLT, directorates, services, etc to ascertain:

- If all key risks have been identified and included on the risk register
- If any risks can be closed
- Progress against agreed actions
- If residual risk scores should be rescored, for example to reflect completed actions

It is acknowledged that Managers are managing risks on a daily basis and this process is not designed to either replace that or add unnecessary bureaucracy to that. These measures are designed to ensure that periodically risks are reviewed away from the daily, operational pressures. This enables a better assessment of risks rather than a reactive approach to operational issues as they present to the service. If a potential risk arises at any time and the risk management approach is there to help analyse and manage risks at the point they are identified; *not wait for the next formal quarterly review.*

3.10 Risk Reporting

- CLT will review the Council's risk profile on a quarterly basis at corporate and directorate levels (i.e. Strategic Risk Register and the top 3 Directorate risks), and used as the basis for;
- A quarterly report to be presented to the Audit Committee; and presented to the Cabinet at least twice a year.

3.11 Annual Assurance

As part of the Directors Assurance statements to support the Council's Annual Governance Statement the Chief Executive and Directors will provide annual assurance in respect of the development, maintenance and operation of effective control systems for risks under their control.

3.12 Risk Management in other Business Processes

In addition to the above formal cycle of risk assessment, good risk management is evident where risks and their management are evaluated / reported within other Councils processes. The risk management processes defined in other business processes should be complied with. These include:

- Councillor decision making (standard Committee template provides for risk identification)
- Council and service planning (service plan document includes a section on Risk; budget, Medium Term Plan, individual growth and savings proposals include sections for risk assessment)
- Business Continuity Planning (click [here](#) for further information)
- Emergency Planning (click [here](#) for further information)
- Project Management (click [here](#) for further information)
- Developing risk management links with key partners and contractors (who should be able / required to provide assurance to the Council that they have effective risk management processes in place)

3.13 Risk Management Awareness

The Council is committed to ensuring that all councillors, officers and partners where appropriate, have sufficient knowledge of the Council's risk management approach to fulfil their responsibilities for managing risk.

New Risk Owners / Users are added to the Grace software and training provided.

Additional support is available upon request

Structured training can be provided to services if required.

New members of the Audit Committee receive a training session on aspects of governance including risk management.

RISK MANAGEMENT: ROLES & RESPONSIBILITIES

Who	Risk Management Role	Frequency
Council	<ul style="list-style-type: none"> • Reviewing the Annual Report of the Audit Committee as it pertains to Risk Management • Considering any specific major risk as highlighted by either Cabinet or Audit Committee 	Annually
Cabinet	<p>The lead councillor body responsible for ensuring corporate risks are identified and effectively managed</p> <ul style="list-style-type: none"> • Considering risk in its decision making as part of every report • Receiving reports on significant risk issues 	6 Monthly
Audit Committee	<p>The lead councillor body responsible for monitoring adherence to the Risk Management Strategy</p> <ul style="list-style-type: none"> • Approving the Risk Management Strategy and ensuring regular review of the Strategy • Reviewing reports on the Council's risk management processes in order to provide independent assurance of the adequacy of the risk management framework and the associated control environment • Raising any concerns on risk management with Cabinet 	Quarterly
Chief Executive	<p>Overall responsibility and accountability for leading the delivery of an effective Council-wide risk management approach</p> <ul style="list-style-type: none"> • Ensuring that the Corporate Risk Register and directorate risk registers are subject to regular review 	Quarterly
Corporate Leadership Team	<ul style="list-style-type: none"> • Owning and leading the corporate risk management process; • Reviewing corporate risks • Reviewing significant directorate risks • Receiving urgent risk reports as necessary • Ensuring risk is given due consideration in all management processes 	Quarterly
Director of Finance and Resources	<ul style="list-style-type: none"> • The development, monitoring and review of the Risk Management strategy, which is approved by Audit Committee each year • The principal risk management adviser and co-ordinator 	Ongoing
Directors	<ul style="list-style-type: none"> • Reviewing directorate risk registers on a quarterly basis • Ensuring that risk is given due consideration in all management processes • Ensuring that risks identified within their directorate are managed at an appropriate level, including escalation to a corporate level where appropriate • Providing an assurance statement as to how risk is being managed as a contribution to the preparation of the Annual Governance Statement 	Ongoing
Heads of Service/ Managers/ Team Leaders (as far as cascade requires)	<ul style="list-style-type: none"> • Undertaking a full review of risk registers • Ensuring that risk is given due consideration in all management processes • Ensuring that risks identified within their division/service/team are managed at an appropriate level 	Ongoing

	<ul style="list-style-type: none"> • Reporting on the adequacy of risk management arrangements to their Director on a regular basis 	
Chief Internal Auditor	<ul style="list-style-type: none"> • Providing guidance, advice & support on the Council's Risk Management approach • Planning and delivering Internal Audit reviews of the internal control environment which helps to provide independent assurance of the Risk Management process • Compiling reports as appropriate for the Corporate Management Team, Cabinet and the Audit Committee 	Ongoing

Risks and Control Examples

There is overlap between triggers, likelihood factors and potential consequences. It is not essential these are exactly or perfectly listed under the 'correct' heading. It is more essential they are recognised and recorded. We have therefore provided some examples below that will hopefully help with the identification of these. Completion of the template is intended to lead an officer/team through a logical process to arrive at the necessary controls that are in place, or need to be put in place.

This list is not exhaustive and is only intended to start you thinking about each heading

Examples of Triggers: <i>An incident or event that happens</i>	
Breach of policies/procedures/standards	Project failure (eg overspend)
Providers/supplier failure	Data Breach / Loss
Serious Service Incident occurs	Budget Overspend
Reduction in government funding	

Examples of Likelihood Factors (Vulnerability): <i>Processes and controls - These are likelihood factors as the extent of their effectiveness influences the probability of a consequence being experienced.</i>	
Staff recruitment and retention processes	Effectiveness of business continuity arrangements
Contract management arrangements	Budget Management
Unexpected levels of demand	Spend / Income Controls
Legislation change management	Lack of stakeholder involvement
Training programmes	Staff morale

Examples of Potential Consequences:	
Financial losses/overspends	Political fallout
Service failure	Supplier/Partner failure
Reputational damage	Staff stress and anxiety/sickness
Legal failure / breach	Poor customer service/complaints/bad press
Failure in Duty of Care	Failure to deliver Council Plan
Interventions (such as by Ofsted, CQC and/or Government)	Partner dissatisfaction/poor communication
Fines/Financial penalties/Compensation payments	

Control examples: <i>If these controls are good then the likelihood of negative consequences is reduced. If these are poor the likelihood of problems is increased.</i>	
Policy	<ul style="list-style-type: none"> Quality checks to ensure adherence to policy and how the policy sets out the management of risks
Resources	<ul style="list-style-type: none"> Regular budget monitoring Authorisation controls
Capacity	<ul style="list-style-type: none"> Workforce planning Training plans (and completion of) Time management checks/management information (such as number of tasks completed per day/week per officer)
Assets	<ul style="list-style-type: none"> Access restrictions (safe/locked cabinet) General building security Asset ID and periodic physical checks
Accuracy	<ul style="list-style-type: none"> Check by a second officer Review of error/exception reports and resolution of differences
Lone working	<ul style="list-style-type: none"> Start and end of shift/visit call-ins Risk Assessments
Health and Safety	<ul style="list-style-type: none"> PPE Risk Assessments
Fraud	<ul style="list-style-type: none"> Segregation of duties (such as segregation of processing and approval)

Note: Further guidance on risk identification can be obtained from Duncan Wilkinson, Chief Internal Auditor, Audit and Risk Management on 01908 252089

RISK SCORING MATRIX

VERY HIGH (V)	5	10	15	20	25
HIGH (H)	4	8	12	16	20
MEDIUM (M)	3	6	9	12	15
LOW (L)	2	4	6	8	10
NEGLIGIBLE	1	2	3	4	5
IMPACT LIKELIHOOD	VERY RARE	UNLIKELY	POSSIBLE	LIKELY	VERY LIKELY

Red (risk scores 16 to 25): Excess of Council’s risk appetite

Amber (risk scores 5 to 15): Likely to cause the Council some difficulties

Green (risk scores 1 to 4) Monitor as necessary

IMPACT DESCRIPTORS

The following descriptors are designed to assist the scoring of the impact of a risk:

	Negligible (1)	Low (2)	Medium (3)	High (4)	Very High (5)
Legal and Regulatory	Minor civil litigation or regulatory criticism	Minor regulatory enforcement	Major civil litigation and/or local public enquiry	Major civil litigation setting precedent and/or national public enquiry	Section 151 or government intervention or criminal charges
Financial	<£0.5m	<£1m	<£5m	<£10m	>£10m
Service provision	Insignificant disruption to service delivery	Minor disruption to service delivery	Moderate direct effect on service delivery	Major disruption to service delivery	Critical long term disruption to service delivery
People and Safeguarding	No injuries	Low level of minor injuries	Significant level of minor injuries of employees and/or instances of mistreatment or abuse of individuals for whom the Council has a responsibility	Serious injury of an employee and/or serious mistreatment or abuse of an individual for whom the Council has a responsibility	Death of an employee or individual for whom the Council has a responsibility or serious mistreatment or abuse resulting in criminal charges
Reputation	No reputational impact	Minimal negative local media reporting	Significant negative front page reports/editorial comment in the local media	Sustained negative coverage in local media or negative reporting in the national media	Significant and sustained local opposition to the Council's policies and/or sustained negative media reporting in national media

AUDIT AND GOVERNANCE COMMITTEE 12th July 2021

Report Title	Report of the external auditors for Corby Borough Council. Closure of the external audit of Corby Borough Council's 2018-2019 financial statements	
Report Author	Neil Harris, Associate Partner, EY, NHarris2@uk.ey.com	
Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME		

List of Appendices

Appendix A – EY report. Corby Borough Council 2018-2019 financial statements. Conclusion of the external audit

1. Purpose of Report

- 1.1. To provide members of the Audit and Governance Committee with a summary of the closure of the external audit of Corby Borough Council's 2018-2019 financial statements.

2. Executive Summary

- 2.1 Members are asked to note the steps taken by EY, as Corby Borough Council's external auditor, to conclude the audit of the 2018-2019 financial statements. This event took place after the 1st April 2021 vesting day and merger of Corby Borough Council with North Northamptonshire Council.
- 2.2 EYs report, at Appendix A, provided the statutory financial officer of North Northamptonshire Council with a summary of their final position on corrected and uncorrected audit adjustments arising from the audit, concluding on matters which had previously been reported to Corby Borough Council's Governance and Audit Committee before the 31st March 2021.
- 2.3 Management representations were received from the predecessor statutory financial officer and Chairman of Governance and Audit Committee of Corby Borough Council on 31st March 2021.
- 2.4 Following consideration of Corby Borough Council management representations received on 31st March 2021, and EYs executive summary issued on 15th April 2021, the statutory financial officer of North Northamptonshire Council authorised the audited 2018-2019 financial statements for issue under delegated authority.

- 2.5 EY issued their statutory audit report on the 2018-2019 financial statements of Corby Borough Council on the 30th April 2021. EY reported:
- An unmodified opinion on the financial statements.
 - An unmodified conclusion on the Council's value for money arrangements.
 - An emphasis of matter on the going concern and post balance sheet event disclosures associated with Local Government Reorganisation and the merger of the Council with North Northamptonshire Council. This is not a qualification or modification to the auditor's report.
 - Certificate closing the external audit for the 2018-2019 financial year.

3. Recommendations

- 3.1 It is recommended that the Audit and Governance Committee note the EY update on the closure of their external audit of Corby Borough Council's 2018-2019 financial statements.

4. Report Background

- 4.1 Please refer to EYs report at Appendix A for further background.

5. Issues and Choices

- 5.1 There are no issues or choices to consider associated with this report.

6. Implications (including financial implications)

6.1 Resources and Financial

- 6.1.1 The delayed conclusion of the Corby Borough Council external audit for the 2018-2019 financial year does have ongoing staffing and budget implications for the North Northamptonshire Council finance team. In particular this is associated with the resources and costs required to prepare for and conclude the external audit of the Council's 2019-2020 as well as the 2020-2021 financial statements. Temporary specialist financial accounting resource has been secured to provide the Council with the resilience to conclude the audit of the legacy financial statements between now and the end of 2021.
- 6.1.2 EY will be submitting to Public Sector Audit Appointments Limited (PSAA) proposed variations to the scale fee for the 2018-2019 external audit to reflect the costs associated with addressing changes to the scope of the audit, risk, complexity and scale of corrected audit adjustments (including five prior period restatements). EY will share their proposed fee variation with the statutory financial officer. PSAA will determine the fee variation and those additional costs will be borne by North Northamptonshire Council.

6.2 Legal

- 6.2.1 There are no legal implications arising from this report.

6.3 Risk

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

6.4 Consultation

6.4.1 No consultation procedures required in advance of preparing this report.

6.5 Consideration by Scrutiny

6.5.1 No consideration by scrutiny is required in advance of preparing this report.

6.6 Climate Impact

6.6.1 No climate or environmental impacts from this report.

6.7 Community Impact

6.7.1 No community impact from this report.

7. Background Papers

7.1 Other than Appendix A, there are no other background papers relevant to this report.

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Corby Borough Council 2018-2019 financial statements

Conclusion of the external audit

15 April 2021

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

15 April 2021

Addressed to the Executive Director of Finance (Section 151 Officer) of North Northamptonshire Council



The purpose of this executive summary is to set out to you as the statutory responsible financial officer for North Northamptonshire Council the final conclusion of our external audit of Corby Borough Council's financial statements for the financial year ended 31st March 2019.

We were unable to issue our audit report on the 2018-2019 financial statements by the 31st March 2021 because we had not received a final set of signed financial statements incorporating all the agreed audit adjustments reported during the course of our work. Subject to this, our external audit work was completed by the 31st March 2021. As we were unable to conclude the audit by the 31st March 2021, the governance process for authorising the 2018-2019 financial statements and management representation letter for issue reverts from Corby Borough Council, now demised, to the North Northamptonshire Council.

Prior to the 31st March 2021, the Corby Borough Council Governance and Audit Committee agreed at its meeting on 2nd September 2020, and then again on the 13th January 2021, to delegate approval of the 2018-2019 financial statements to the then Director of Corporate Services in consultation with the Chairman of the Governance and Audit Committee. This followed consideration of the findings from our external audit in our written audit results report presented to the Committee on 2nd September 2020, supplemented by my verbal update on progress resolving the outstanding matters on the 13th January 2021. A copy of the audit results report will be sent to you alongside this summary for your reference.

The former Director of Corporate Services for Corby Borough Council discharged his statutory duties by the 31st March 2021 in:

- Agreement to all corrected audit adjustments being made to the primary statements and disclosures in the final accounts.
- Setting out reasons for not amending for one immaterial item in the management representation letter which we received on the 31st March 2021 signed by the Director of Corporate Services and the Chairman of the Governance and Audit Committee. This related to a misstatement of £290,000 in the valuation of one of the Council's investment properties. This difference does not impact on the Council's general fund balances.

We therefore are content that the delegation in place to approve the 2018-2019 financial statements can revert from the Section 151 officer at Corby Borough Council prior to 31st March 2021, to yourself as the Section 151 Officer for the North Northamptonshire Council from the 1st April 2021.

I can confirm that we have now agreed the final audited financial statements and that these have appropriately incorporated all of the adjustments we expect to the primary statements and disclosure notes. We intend to issue an unqualified audit report on the Council's financial statements for the 2018-2019 financial year.

To enable you to consider whether you are equally content to exercise this delegation and approve the 2018-2019 financial statements and management representations for issue, I set out on the following two pages the corrected adjustments which occurred after the 13th January 2021 and which I believe are appropriate to draw to your attention.

Corrected audit adjustments to draw to your attention that took place following 13th January 2021

1. Correction of five prior period restatements

During the course of our audit, we identified five prior period adjustments. Corby Borough Council officers agreed to all of the adjustments and we were able to agree and conclude a professional practice consultation on the restated primary statements and disclosures before the 31st March 2021. The financial statements appropriately disclose the prior period restatements at Note 41, an extract of which will be sent to you with this paper. Whilst all of the adjustments meet the criteria for a prior period restatement, these do not impact on the Council's general fund balances and financial position. In summary, the prior period restatements relate to:

- Overstatement of the valuation of a specialised asset, "The Cube" (£15million). This asset houses the Council chamber, a registry office, a public library and a 450-seat theatre. From our expert review of the valuation assumptions in 2018/2019, we identified that the rebuild cost of the asset had been overstated. The Cube was constructed in 2010 for £47.5million but the Council's specialists incorrectly assumed that the cost to rebuild was in line with the original construction costs. However, the costs to construct were £10million in excess of budget and therefore the valuation of the asset should have had an impairment review when it came into operational use. The Council's valuer did revisit the valuation, confirming an overstatement of £15million which our specialist corroborated.
- Reclassification of Council houses from assets held for sale (£3.283million). Previously, management had incorrectly assessed that when a tenant initiated a right to buy process, the asset should be reclassified as assets held for sale. As these assets are not being actively marketed, they do not meet the requirement of assets held for sale and have been reclassified on the Council's balance sheet.
- Overstatement of the revaluation reserve by £60.07million at the end of 2017/18 financial year. We identified that there has been a historic posting of incorrect revaluation movements. Finance officers have misinterpreted the CIPFA code guidance notes and had been posting all downwards revaluation to the Comprehensive Income and Expenditure Statement and upwards revaluations to the reserve. We requested that the finance officers reproduced the revaluation journals for each asset from 2010 onwards, coinciding with the first year of IFRS implementation in Local Government.
- Understatement of depreciation for playground equipment (£1.4million). The Council own playground equipment which was purchased in the 2010/20211 financial year. These assets were incorrectly recorded in the fixed asset register as not requiring depreciation, resulting in a cumulative overstatement to the fixed asset balance and an understatement of expenditure.
- Material impact of discrepancies between the fixed asset register and the Council's property services records. Several discrepancies were identified which cumulatively were material. These include; a) £201,000 of assets which had been demolished but not written out of the fixed asset register; b) £1.077million spend on assets under construction where the asset was in operation and subject to revaluations; c) £611k of surplus land no longer owned by the Council as these were disposed as part of a package of land sales to Tesco's in 2010; and d) £238k of investment properties which were either duplicate assets in other land and buildings or remained part of assets not fully written out on disposal.

2. Corrected audit adjustment which although not material did impact on the Council's general fund balances

We challenged the finance team on whether it was appropriate to capitalise £430k of administrative and other general overhead costs, recharging these to capital programmes across the Council's service directorates. The Council's finance team were unable to demonstrate that the costs were incremental in nature and met the requirements of the CIPFA Code. As these costs have now been expensed, they do have a direct impact on the Council's level of general fund balances, although the adjustment itself is not material.

3. Appropriateness of going concern disclosures for the merger of Corby Borough Council and North Northamptonshire Council

Following our audit procedures including professional practice consultations, we concluded that the going concern and post balance sheet events disclosures associated with the local government reorganisation in North Northamptonshire were appropriate. These disclosures were applied to sovereign Northamptonshire Local Government bodies in North Northamptonshire that had either 2018-2019 or 2019-2020 financial statements which were in a position to be authorised for issue by 31st March 2021. The disclosures covered the conditions relevant to the liquidity and viability of the North Northamptonshire Council until the end of March 2022.

As the Corby Borough Council 2018-2019 financial statements was not authorised for issue by the 31st March 2021, the going concern disclosure note has been updated to reflect management's assessment on the conditions relevant to the North Northamptonshire Council's liquidity and viability up to the end of April 2022. We have reviewed management's assumptions and conclude that the updated disclosure is appropriate. We have not identified any material uncertainties on the continuity of service provision.

We therefore propose to include, consistent with the rest of the North Northamptonshire sovereign Local Government bodies, an emphasis of matter in our audit report that draws readers attention to the going concern and post balance sheet event disclosure notes. An emphasis of matter is not a qualification or modification to our audit report.

Next steps

We are in a position to issue our audit report on the 2018-2019 financial statements for Corby Borough Council once we receive the signed and authorised 2018-2019 financial statements and management representation letter. We appreciate that this is subject to your review of this executive summary, the audited 2018-2019 financial statements and your conclusion on whether you are content to exercise the delegation that was in place before 31st March 2021, and carried across to you after the 1st April 2021 in your statutory officer role at North Northamptonshire Council. Should that be the case, once we receive the authorised financial statements, we will issue our audit report. To meet our respective responsibilities, I propose that this report, our Annual Audit Letter and an officer report on the closure of the 2018-2019 accounts for Corby Borough Council is presented to the first meeting of the North Northamptonshire Audit Committee following the election of Committee members. I will attend this meeting.

Yours faithfully

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

About EY

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AUDIT AND GOVERNANCE COMMITTEE 12th July 2021

Report Title	Report of the external auditors for Borough Council of Wellingborough, Corby Borough Council, East Northamptonshire Council and Kettering Borough Council and Northamptonshire County Council.	
	Status update on the scheduling of external audits for the legacy financial statements for the financial year ended 31st March 2020 and 31st March 2021	
Report Author	Neil Harris, Associate Partner, EY, NHarris2@uk.ey.com	
Contributors/Checkers/Approvers		
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North S151		
Other Director/SME		

List of Appendices

Appendix A – EY national letter to Local Government Chief Financial Officers and Chairs of Audit Committees on scheduling of 2020-2021 external audits.

1. Purpose of Report

- 1.1. To provide members of the Audit and Governance Committee with a status update from EY on their scheduling of external audits for the legacy financial statements of the following Councils:
- Borough Council of Wellingborough (2020/2021 financial year).
 - Corby Borough Council (2019/2020 and 2020/2021 financial years).
 - East Northamptonshire Council (2019/2020 and 2020/2021 financial years).
 - Kettering Borough Council (2020/2021 financial year).
 - Northamptonshire County Council (2019/2020 and 2020/2021 financial years).

2. Executive Summary

- 2.1 A representative from EY will be in attendance to provide a verbal update on their plans for the scheduling of external audits for those demised Northamptonshire Councils that merged with North Northamptonshire Council on the 1st April 2021.

- 2.2 EYs audit planning and risk assessment procedures for each legacy Council remain ongoing. EY intend to finalise their audit planning reports for each individual legacy Council during the course of July and August 2021 and will provide these to the statutory financial officer. Once agreed, the external audit planning reports for the relevant financial years will be circulated to Committee members for information.
- 2.3 Following periodic discussions between EY and the Council's finance team, EY are currently proposing the following timetable for their external audits for the remainder of the 2021 calendar year as set out in the table below. Drawing on the lessons learned from prior year audits, the proposed timetable for the external audit is designed to align to the Council's accounts closure timetable, delivery of project plans to be ready for audit as well as maximising the availability of key officers to support the audit process. It is also designed to safeguard EYs audit quality and professional standards and secure an efficient and effective audit process.

Council	2019-2020 accounts	2020-2021 accounts
Borough Council of Wellingborough	Audit completed before 31 st March 2021	w/c 30 th August through to the end of September 2021
Corby Borough Council	Audit to take place concurrently from w/c 6 th September 2021 through to the end of the 2021 calendar year	
East Northamptonshire Council	Audit to take place concurrently from w/c 6 th September 2021 through to the end of the 2021 calendar year	
Kettering Borough Council	Audit completed before 31 st March 2021	w/c 26 th July through to the end of August 2021.

A representative from EY will provide members with a verbal update on the current status of the Northamptonshire County Council external audit for the 2019-2020 and 2020-2021 financial years.

- 2.4 EYs external audit for each legacy Council will provide an audit opinion on whether the financial statements give a true and fair view of the Council's financial position for the relevant financial year, as well as a conclusion on each of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. When planning their audit, EY 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.
 - Management's views on all of the above.

- 2.5 One of the main changes in the National Audit Office's 2020 Code of Audit Practice for the 2020-2021 audits is on the external auditor's value for money conclusion. This is now replaced by a value for money narrative commentary, including identifying and reporting on any significant weaknesses in value for money arrangements and making appropriate recommendations. EY will be required to provide a commentary on each Council's value for money arrangements in the 2020-2021 financial year prior to the merger with North Northamptonshire Council 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 risk properly.
 - 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.
- 2.6 Whilst EYs audit planning and risk assessment procedures are ongoing, we anticipate that the areas of focus that could drive significant or inherent audit risks on each Council's financial statements will be as follows:
- Risks of management override of controls.
 - Inappropriate capitalisation of revenue expenditure.
 - Risk of fraud in revenue recognition, particularly where Council's are reliant on income from commercial arrangements.
 - Valuation of property, plant, equipment and investment properties, particularly those which are susceptible to market volatility following the Covid-19 outbreak.
 - Valuation of net pension liability, drawing on assurances from a programme of work performed by the Northamptonshire Pension Fund auditors, also performed by EY.
 - Appropriateness of going concern and post balance sheet event disclosures related to the merger of the legacy Councils with North Northamptonshire Council, which will be subject to the EY audit team undertaking a consultation process with EYs professional practice directorate.
 - Recognition of Covid-19 grant income received by Council's in the 2020-2021 financial year.
 - Risk assessment (on a scale of very low, low, or high) of management's accounting estimates, considering their subjectivity, complexity and degree of estimation uncertainty. For higher risk estimates, additional audit procedures will need to be performed, considering both corroborative as well as contradictory evidence, conditions and factors. Where appropriate EY may need to engage specialist support, a good example would be in reviewing a complex expected credit loss assessment to test the risk of impairment for a trade receivable.

- 2.7 EYs external audits are taking place with the backdrop of reviews by the National Audit Office and Parliament's Public Accounts Committee on the sustainability of the local audit regime and specifically the factors driving delays to the timeliness of local audit opinions pre and post Covid-19. In response to these reviews, and the Sir Tony Redmond review, MHCLG have agreed, after consultation, that the publication of audited accounts to 30th September was appropriate and that the removal of the common inspection date, requiring instead that the draft accounts be published no later than 1st August, was also appropriate. The Accounts and Audit (Amendment) Regulations 2021, which implements these changes, were laid on 9th March 2021 and came into force on 31 March 2021.
- 2.8 At the beginning of June 2021, EY issued a national letter to Local Government Chief Financial Officers and Audit Committee Chairs setting out the principles they will adopt for scheduling high-quality 2020-21 audits. EYs national letter is provided at Appendix A for information. It is important for members to note that EY will use these principles consistently to confirm and implement their proposed timetable and scheduling of the Council's external audit of legacy financial statements this year. EYs Key Audit Partners will have regular dialogue with the statutory financial officer and finance teams to review progress against these plans, and members of this Committee will be informed in the event that there are any significant variations to the accounts and audit timetables.

3. Recommendations

- 3.1 It is recommended that the Audit and Governance Committee note the EY update on the proposed scheduling of legacy financial statements external audits for the 2019-2020 and 2020-2021 financial years.

4. Report Background

- 4.1 Please refer to EYs national letter at Appendix A for further background.

5. Issues and Choices

- 5.1 There are no issues or choices to consider associated with this report.

6. Implications (including financial implications)

6.1 Resources and Financial

- 6.1.1 The conclusion of the external audit of legacy Councils financial statements as soon as practicable is essential for the Council's finance team to implement the financial reporting controls and closedown plans which will be necessary to prepare the inaugural 2021-2022 financial statements for North Northamptonshire Council and meet MHCLGs Accounts and Audit Regulations timetables. In addition, the Council needs to secure a smooth transition on the external audit from EY on the legacy Councils to Grant Thornton who are the appointed auditor's for North Northamptonshire Council.

6.1.2 The external audit of the legacy Councils financial statements have ongoing staffing and budget implications for the North Northamptonshire Council finance team. In particular this is associated with the resources and costs required to prepare for and conclude the external audit of the Council's 2019-2020 as well as the 2020-2021 financial statements. Temporary specialist financial accounting resource has been secured to provide the Council with the resilience to conclude the audit of the legacy financial statements between now and the end of 2021. In addition, any delays to the conclusion of the audits beyond December 2021 could create a bottleneck with the Council's budget setting timetable and process for the 2022/2023 financial year.

6.1.3 EY will be communicating their proposed fees for each legacy Council in their audit planning and audit results reports. At the conclusion of the external audits, EY will be submitting to Public Sector Audit Appointments Limited (PSAA) proposed variations to the scale fee for the external audits to reflect the costs associated with addressing changes to the scope of the audit, risk, complexity and scale of audit findings and adjustments. EY will share their proposed fee variations for each of the legacy Council's with the statutory financial officer. PSAA will determine the fee variations and those additional costs will be borne by North Northamptonshire Council.

6.2 **Legal**

6.2.1 There are no specific legal implications arising from this report. EY perform their external audits in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the auditing standards and other professional requirements. The Council is required to comply with the requirements of the Accounts and Audit (Amendment) Regulations 2021. The Council will fulfil these requirements either by publishing audited 2020-2021 accounts by the 30th September 2021 or a notice explaining the reasons for the delay to the publication of the audited accounts.

6.3 **Risk**

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

6.4 **Consultation**

6.4.1 No consultation procedures required in advance of preparing this report.

6.5 **Consideration by Scrutiny**

6.5.1 No consideration by scrutiny is required in advance of preparing this report.

6.6 **Climate Impact**

6.6.1 No climate or environmental impacts from this report.

6.7 **Community Impact**

6.7.1 No community impact from this report.

7. Background Papers

7.1 Other than Appendix A, there are no other background papers relevant to this report.

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

1 June 2021

Ref: JD/NH

Direct line:

Sent by email

Email: jdawson1@uk.ey.com

Dear Chief Financial Officer and Audit Committee Chair

Scheduling high-quality 2020/2021 local public audits

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

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

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

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

Context guiding our scheduling of 2020/21 external audits

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

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

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

Delivering our 2020/2021 external audits

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

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

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

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

Ways of working

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

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

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

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

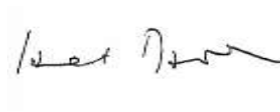
Next steps

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

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

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

Yours faithfully,



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