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Meeting: Audit and Governance Committee
Date: Monday 27 September 2021
Time: 2.00 pm
Venue: Council Chamber, Cedar Drive, Thrapston


To:

Members of the Audit and Governance Committee

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

Substitutes: Councillors Jean Addison, Valerie Anslow, Annabel de Capell Brooke, John Currall, Bert Jackson, Matt Keane, Paul Marks and Lee Wilkes.

| Agenda | | | |
|--------|--|--|----------|
| Item | Subject | Presenting Officer | Page no. |
| 01 | Apologies for non-attendance | | |
| 02 | Members' Declarations of Interest | | |
| 03 | Confirmation of the minutes of the meeting held on 12 July 2021 | | 5 - 14 |
| 04 | Audit Results Report 2020-2021 – Kettering Borough Council - to follow | N Harris Ernst & Young (External Audit) Associate Partner | |
| 05 | Outturn and draft Statement of Accounts – Kettering Borough Council and Borough Council of Wellingborough - to follow | M Dickenson Assistant Director of Finance and Strategy | |
| 06 | Open Audit Actions | R Ashley-Caunt Head of Internal Audit and Counter Fraud | 15 - 20 |

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| 07 | Internal Audit Progress report | R Ashley-Caunt Head of Internal Audit and Counter Fraud | 21 - 40 |
| 08 | External Audit Progress report | C McLaughlin Grant Thornton (External Audit) Director | 41 - 56 |
| Exempt Items | | | |
| 09 | None notified | | |
| 010 | Close of meeting | | |
| <p>Adele Wylie, Monitoring Officer North Northamptonshire Council</p>  <p>Proper Officer 17 September 2021</p> | | | |

This agenda has been published by Democratic Services.

Committee Administrator: Fiona Hubbard

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Minutes of the Audit and Governance Committee

held at 2:00 pm on Monday 12th July 2021 in the Council Chamber,
Cedar Drive, Thrapston.

Members in Attendance:

Councillor Andrew Weatherill (Chair)
Councillor Matt Binley
Councillor Richard Levell
Councillor Peter McEwan
Councillor Mark Pengelly

Councillor Kirk Harrison (Vice-Chair)
Councillor Russell Roberts
Councillor Kevin Watt
Councillor Paul Marks (Substitute)

Councillor Lloyd Bunday, Portfolio Holder for Finance and Transformation also attended the meeting.

Observing Members:

Councillor Bert Jackson (Substitute Member) and Councillor Jim Hakewill.

Officers in Attendance:

Janice Gotts (Executive Director of Finance (S151 Officer)), Mark Dickenson (Assistant Director of Finance and Strategy), Duncan Wilkinson (Chief Internal Auditor), Janet Dawson (Ernst & Young – External Audit), Fiona Hubbard (Senior Democratic Services Officer) and Raj Sohal (Democracy Officer).

1 Apologies for absence

An apology was received from Councillor Ian Jelley.

2 Declarations of Interests

Members were requested to declare whether they had any personal or pecuniary interest in any item to be considered by the meeting.

| Councillor | Nature of Interest | DPI | Other Interest |
|-------------|--|-----|----------------|
| Matt Binley | His partner is employed by West Northamptonshire Council | | Yes |

3 Notification of requests to address the meeting

There were no requests to address the Committee.

4 Terms of reference for the Audit and Governance Committee

The circulated report of the Chief Internal Auditor was received. Appended to the report was the Terms of Reference for the Audit and Governance Committee.

The Chief Internal Auditor presented the report which outlined the Terms of Reference for the committee to note its duties and responsibilities within the Terms of Reference under the approved Council Constitution.

A Councillor referenced the Terms of Reference in relation to committee dates and moving the September meeting later into that month to allow for the current timelines for auditing the predecessor financial accounts.

Members confirmed they noted the change of date from 13 September 2021 to 27 September 2021.

The recommendation contained in the report was duly **MOVED** by Councillor Pengelley and **SECONDED** by Councillor Russell Roberts. On being put to the vote this was carried.

RESOLVED that:-

(i) the Terms of Reference for the Audit and Governance Committee be noted.

5 Predecessor 2020-2021 Internal Audit Annual Opinions

This item was moved to the end of the agenda as one of the documents contained therein was exempt. This was not known when the agenda was published.

6 Internal Audit Charter and Strategy

The circulated report of the Chief Internal Auditor was received. Appended to the report was the Internal Audit Charter and Strategy.

The Chief Internal Auditor presented the report which provided 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.

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'.

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.

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

Members considered the report and appendix. The Chief Internal Auditor clarified a question raised by a member in relation to reporting contained in the Internal Audit Charter and Strategy.

The recommendation contained in the report was duly **MOVED** by Councillor Richard Levell and **SECONDED** by Councillor Matt Binley. On being put to the vote this was carried.

RESOLVED that:-

- (i) Approval be given to the Internal Audit Charter and Strategy.

7 Draft Internal Audit Plan 2021-2022 and Progress Update

The circulated report of the Chief Internal Auditor was received in relation to the draft Internal Audit Plan covering 2021-2022. Appended to the report was the draft Internal Audit Plan 2021-2022.

The Chief Internal Auditor presented the report which provided a copy of the draft Internal Audit Plan 2021-2022 for approval by the Audit and Governance Committee. He also provided an update on the status of the work provided for the Quarter 1 assignments.

The Chief Internal Auditor highlighted that all audit plans must be flexible in accordance with best practice. More than ever before this plan is expected to see changes throughout the year. The plan submitted at this time is therefore the basis to provide a transparent change control mechanism. Changes are agreed with the Section 151 Officer and Chief Internal Auditor as considered professionally necessary and then reported to the next Audit and Governance Committee meeting providing the Committee with opportunity to review the revised plan.

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 Audit and Governance Committee and informed by the Council's risk framework.

The Plan for 2021-2022 had 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.

Members were asked to accord with the Public Sector Internal Audit Standards (PSIAS) and approve the programme of work to be delivered by the Internal Team in 2021-2022, subject to ongoing review and prioritisation.

Members raised several pertinent questions of clarification. These were answered by the Chief Internal Auditor and the Executive Director of Finance (S151 Officer) and related to social care; Northamptonshire Children's Trust; Section 106 monitoring; days allocated to audit coverage; and audit staff structure and resources.

One member asked how audit was going to follow through the work from previous past findings. The Chief Internal Auditor confirmed they have tried to build into the plan liaison with prior auditors; he confirmed the plan had been developed with knowledge of those issues included in annual reports.

The Chair summarised that going forward it is the committee's role to watch things closely and to obtain assurance. He considered the audit plan to be a reasonable one which broadly enables the discharge of functions.

The recommendation contained in the report was duly **MOVED** by Councillor Kirk Harrison and **SECONDED** by Councillor Kevin Watt. On being put to the vote this was carried.

RESOLVED that:-

- (i) Approval be given to the draft Internal Audit Plan coverage for 2021-2022.

8 Strategic Risk Register

The circulated report of the Chief Internal Auditor was received. The purpose of the report was to outline a first draft North Northamptonshire Council Strategic Risk Register (SRR) collating various information contained by previous Councils. Appended to the report was the Risk Management Strategy 2021-2022.

The Chief Internal Auditor presented the report and highlighted that whilst Internal Audit had supported the development of the Register and risk processes, this was not an Internal Audit document and the risks, their assessment and review are owned by the Leadership Team. Internal Audit provide support to this process as it enables Internal Audit to better understand the risks and issues to fully inform the audit plan etc.

The Risk Management Strategy 2021-2022 appended to the report had been approved by the Shadow Executive on 25 March 2021. The committee was being asked to note and endorse the Risk Management Strategy 2021-2022; and the first draft North Northamptonshire Risk Register (SRR) collating various information maintained by previous Councils, which identified 15 strategic risks. This draft had been developed from relevant information previously maintained by the North Northamptonshire Council's predecessor Councils.

Several relevant questions were asked by members relating to organisational capacity in relation to staff; the consolidated risks of predecessor Councils (Corby Borough Council and East Northamptonshire Council); mitigation scores; and queried that no risks had been reported relating to the former Northamptonshire County Council. Clarification of questions were responded to by the Chief Internal Auditor and the Executive Director of Finance (S151 Officer), including that Northamptonshire County Council risks were listed and informed the North Northamptonshire Council Strategic Risk Register. The Executive Director of Finance (S151 Officer) also added that the Strategic Risk Register is not the only register as each Directorate has their own to ensure governance and controls are in place. These are regularly addressed by the Corporate Leadership Team.

The recommendation contained in the report was duly MOVED by Councillor Russell Roberts and SECONDED by Councillor Richard Levell. On being put to the vote this was carried.

RESOLVED that:-

- (i) The Risk Management Strategy 2021-2022 and the first draft North Northamptonshire Strategic Risk Register (SRR) be noted and endorsed.

9 Report on the Redmond Review

The circulated report of the Executive Director of Finance (S151 Officer), was received to inform and update members of the committee on the findings of the Redmond Review, into the effectiveness of local authority financial reporting and audit. Appended to the report was the Redmond Review recommendations and the Ministry of Housing, Communities and Local Government (MHCLG) responses.

The Executive Director of Finance (S151 Officer) presented the report and appendix.

Whilst the review and its findings were published several months ago, as a new Audit Committee for a new Authority, it was considered useful to remind Members of the findings of the review and also provide details of the response from the MHCLG.

Last year, 8 September 2020, the Government published the results of an independent review into the effectiveness of local authority financial reporting and audit, led by Sir Tony Redmond. Local authority accounts are complex and the Review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these. The report summarised the key findings and recommendations within the report, as well as implications for the Council.

The Review identified a number of potential weaknesses with the current framework of local audit, including:

- An ineffective balance between price and quality with 40% of audits in 2018/19 failing to meet required reporting deadlines in part due to under-resourcing and lack of experienced staff;
- A lack of coordination and regulation of audit activity;
- Outcomes not always being effectively considered and presented to the local authority and the public;
- The technical complexity of statutory accounts limiting public understanding and scrutiny.

The Review identified four key themes for change:

- Local Audit Arrangements;
- Current Fee Structure for External Audit;
- Governance Arrangements;
- Transparency and reporting.

The Review contained 23 recommendations over four categories; a number of the recommendations were relevant to specific types of Authority:

- External Audit Regulation;
- Financial Resilience of local authorities;
- Smaller Authorities Audit Regulation;
- Transparency of Financial Reporting.

The Executive Director of Finance (S151 Officer) also referred to some of the key implications for the Council, assuming that the recommendations were implemented. These included the likely increase in external audit fees and whether these would be covered by the additional £15m from Government is not yet known; requirement for the external auditor to present an annual report to Full Council; continuation of the appointment of at least one suitably qualified independent member to Audit Committee; the revised timetable and a change in the reporting deadline; further consultation timings and payments to audit firms in-year rather than upon completion of an audit.

Members were being asked to note the report and content of the Redmond Review.

The Chair referred to the requirement for a qualified independent member to the Audit and Governance Committee. As part of the recruitment the Chair suggested incorporating into this process a request for a supportive skills-based assessment from members of the committee. This was agreed by the Executive Director of Finance (S151 Officer).

The recommendation contained in the report was duly **MOVED** by Councillor Mark Pengelly and **SECONDED** by Councillor Kirk Harrison. On being put to the vote this was carried.

RESOLVED that:-

- (i) The Redmond Review and report be noted.

10 Closure of the external audit of Corby Borough Council's 2018-2019 financial statements

The circulated report of Ernst and Young (External Auditors for Corby Borough Council) was received, to provide members of the committee a summary of the closure of the external audit of Corby Borough Council's 2018-2019 financial statements. Appended to the report were the financial statements for Corby Borough Council for 2018-2019.

Janet Dawson from Ernst and Young presented the report.

Members were asked to note the steps taken by Ernst and Young, as Corby Borough Council's external auditor, to conclude the audit of the 2018-2019 financial statements. This event took place after 1 April 2021, the vesting day and merger of Corby Borough Council with North Northamptonshire Council.

Ernst and Young's 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 31 March 2021.

Management representations were received from the predecessor statutory financial officer and Chairman of Governance and Audit Committee of Corby Borough Council on 31 March 2021.

Following consideration of Corby Borough Council management representations received on 31 March 2021, and Ernst and Young's executive summary issued on 15 April 2021, the statutory financial officer of North Northamptonshire Council authorised the audited 2018-2019 financial statements for issue under delegated authority.

Ernst and Young issued their statutory audit report on the 2018-2019 financial statements of Corby Borough Council on the 30 April 2021. Ernst and Young 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.

Members asked various questions of clarification relating to the overstatement of the valuation of the Corby Cube; the parcels of land that had been sold; how 2020-2021 figures be looked at when some staff are no longer at the authority and any budget implications. The Executive Director of Finance (S151 Officer) and Janet Dawes (External Auditor) responded to the questions.

The Chair commented that there were clearly significant issues but for this committee going forwards it's about fixing the problems and not the blame.

The recommendation contained in the report was duly **MOVED** by Councillor Richard Levell and **SECONDED** by Councillor Peter McEwan. On being put to the vote this was carried.

RESOLVED that:-

- (i) The Audit and Governance Committee note the Ernst and Young update on the closure of the external audit of Corby Borough Council's 2019-2019 financial statements.

11 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

The circulated report of Ernst and Young (External Auditors for Borough Council of Wellingborough, Corby Borough Council, East Northamptonshire Council, Kettering Borough Council and Northamptonshire County Council) was received, to provide members with a status update on the scheduling of external audits for the legacy financial statements for the financial year ended 31 March 2020 and 31 March 2021.

Appended to the report was a national letter to Local Government Chief Financial Officers and Chairs of Audit Committees on scheduling of 2020-2021 external audits.

Janet Dawson from Ernst and Young presented the report.

The purpose of the report was to provide members of the committee with a status update from Ernst and Young 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).

Janet Dawson also provided a verbal update on Ernst and Young's plans for the scheduling of external audits for those demised Northamptonshire Councils that merged with North Northamptonshire Council on 1 April 2021 and some of the audits were at different stages.

She reported that the audit of the accounts for 2019-2020 for the former Northamptonshire County Council were delayed but was now underway and a report would be available at the end of September.

Outline Audit Timetable

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

The Chair considered the timetable to be a sensible approach with those that had one year to reach the deadline. He commented that he was mindful of responsibilities between the date of this committee and the next meeting in September and suggested a small group be set up with officers and members from the Audit and Governance Committee, to oversee, review and comment on the Audit Planning Memorandums for the audits of the former Kettering Borough Council and Borough Council of Wellingborough, for 2020-2021. This was agreed by the Executive Director of Finance (S151 Officer).

The recommendation contained in the report was duly **MOVED** by Councillor Kirk Harrison and **SECONDED** by Councillor Richard Levell. On being put to the vote this was carried.

RESOLVED that:-

- (i) The update on the proposed scheduling of legacy financial statements external audits for 2019-2020 and 2020-2021 financial years be noted.

12 Item 5 - Predecessor 2020-2021 Internal Audit Annual Opinions

The circulated report of the Chief Internal Auditor was received to provide members with the 2020-2021 Annual Internal Audit Opinions for the five Northamptonshire Predecessor Councils. Appended to the report were five Appendices. In addition, an exempt Appendix was received which contained some text considered to be confidential. No public or press were present at the meeting.

The Chief Internal Auditor presented the report.

This report summarised the 2020-2021 Internal Audit Annual Reports from the 5 Northamptonshire predecessor Councils: Kettering, Corby, East Northamptonshire, Wellingborough and Northamptonshire County Council. The Internal Audit service was delivered by 2 providers across the 5 Councils:

- Corby and East Northamptonshire – delivered under contract by the shared service (Cambridgeshire County, Northants County and Milton Keynes Council);
- Northamptonshire County Council – delivered by the shared service but via the County as a key partner with Cambridgeshire County and Milton Keynes Council shared service;
- Kettering and Wellingborough – delivered under contract by CWAudit (an NHS led shared service consortia).

The table below provided a single summary of the 5 opinions:

| Council | Opinion | Opinion Scale |
|---------------------------------|--------------|--|
| Corby | Satisfactory | Substantial Good Satisfactory Limited No Assurance |
| East Northamptonshire | Satisfactory | |
| Northamptonshire County Council | Satisfactory | |
| Kettering | Significant | Full Significant Moderate Limited No Assurance |
| Wellingborough | Significant | |

- Corby, East Northamptonshire and the Northamptonshire County Council opinions are therefore the middle opinion (equivalent to the Moderate category at Kettering and Wellingborough);
- Kettering and Wellingborough opinions are therefore the 2nd highest/best opinion (equivalent to the Good category applied for Corby etc).

The Chief Internal Auditor highlighted that the report gave assurances that those key issues highlighted by previous Internal Audit services had been considered within the 2021-2022 Audit Plan. The Chief Internal Auditor responded to members' questions relating to data and finance systems.

The recommendation contained in the report was duly **MOVED** by Councillor Matt Bingley and **SECONDED** by Councillor Kirk Harrison. On being put to the vote this was carried.

RESOLVED that:-

- (i) The committee note the annual opinions provided and how key issues have been reflected within the 2021-2022 audit plan, as set out in the report.

13 Close of Meeting

The meeting closed at 4:00pm.

Chair

Date

Audit and Governance Committee 27th September 2021

| | | |
|---------------------------------|--|--|
| Report Title | Open audit actions | |
| Report Author | Rachel Ashley-Caunt - Head of Internal Audit and Counter Fraud <u>rachel.ashley-caunt@northnorthants.gov.uk</u> | |
| Contributors/Checkers/Approvers | | |
| North MO | | |
| North S151 | | |
| Other Director/SME | | |

List of Appendices

None

1. Purpose of Report

- 1.1. For the Committee to note the approach adopted to follow up open audit actions from the legacy councils and the findings to date.

2. Executive Summary

- 2.1 Upon the closure of the legacy councils in North Northamptonshire, a number of actions arising from Internal Audit findings remained open. This report provides an overview of those actions which have been inherited – together with an update and proposed approach to ongoing follow up.




3. Recommendations

- 3.1 It is recommended that the Committee:
- a) Note the current status of the open actions and how Internal Audit will be seeking assurances that risks are addressed.
- 3.2 Reason for Recommendations –
- For the Committee to exercise its duties and responsibilities within its Terms of Reference and to support effective delivery of the Internal Audit service.

4. Report Background

- 4.1 In line with the Internal Audit Charter, where an Internal Audit review identifies areas of non-compliance, or gaps/weaknesses within the control environment, actions are agreed with the relevant service management to ensure the risks are suitably addressed. Progress made in completing such actions would then be subject to monitoring by Internal Audit in accordance with agreed timeframes. The Head of Internal Audit would regularly update the Audit and Governance Committee of implementation rates and highlight any overdue actions which represent a potential risk.
- 4.2 At 1st April 2021, a total of 223 such actions remained open across the legacy councils. Reports of these actions have been obtained and subject to the following stages of review by the Internal Audit service:
- 4.2.1 Removal of any duplicated actions (6 in total) – examples include actions outstanding on IT related audits which applied to both East Northamptonshire and Wellingborough's shared ICT service and featured on both councils' open action reports; and
- 4.2.2 Removal of any redundant actions or those which now relate to other bodies (68 in total) – such as actions which related specifically to the respective council which had been superseded by the transition to the unitary council.
- 4.3 This leaves a total of 149 actions which were assessed by Internal Audit as valid actions to follow up with North Northamptonshire Council. It is acknowledged by Internal Audit that some of the agreed actions may no longer be entirely applicable, or the most appropriate action under the new arrangements. Internal Audit are seeking, however, to confirm that the associated risk has been addressed by any relevant controls.
- 4.4 It was noted that a high proportion of the open actions related to areas of Internal Audit coverage which are scheduled for 2021/22. As such, it is proposed that thorough follow ups can be conducted as part of this fieldwork. Should the audit highlight that action is still required to address the respective risk, the actions will remain open and subject to ongoing monitoring. The action may be amended, however, to reflect the best course of action going forward and thereby ensure that the open actions remain valuable and reflect the latest approach to service delivery.
- 4.5 Follow up activity by Internal Audit, to date, has confirmed that 42 of the actions have now been implemented. There are a further 21 actions which have been confirmed as open and unimplemented and these will be subject to ongoing audit monitoring, with associated timeframes.
- 4.6 A breakdown of all of the open actions, by assigned priority rating (high, medium or low) is provided in Table 1 below.

Table 1: Breakdown of inherited open audit actions

| | High priority | Medium priority | Low priority | Total |
|--|---|---|---|------------|
| |  |  |  | |
| Number of open actions inherited | 27 | 81 | 115 | 223 |
| Duplicates removed | 3 | 3 | 0 | 6 |
| Redundant actions | 5 | 37 | 26 | 68 |
| Remaining actions valid for follow up | 19 | 41 | 89 | 149 |
| Confirmed as implemented | 3 | 14 | 25 | 42 |
| Confirmed as unimplemented | 1 | 3 | 17 | 21 |
| To be followed up in audit testing | 15 | 24 | 47 | 86 |

- 4.7 A breakdown of the 86 actions to be followed up as part of Internal Audit testing in 2021/22 is provided in Table 2, below. This provides the committee with confirmation of the relevant audit assignment within which the actions will be followed up and the planned timing of this work.

Table 2: Actions to be followed up within planned Internal Audit coverage

| Control areas | Number of actions | To be followed up within 2021/22 audit coverage of (timing): |
|------------------------------------|-------------------|--|
| S106 monitoring | 2 | S106 monitoring audit (Q2) |
| Asset management | 2 | Asset management audit (Q2) |
| Temporary accommodation | 1 | Homelessness & temporary accommodation audit (Q3) |
| IT | 29 | IT audits (Q2) |
| Data protection | 13 | Information governance audit (Q3) |
| Key financial systems | 8 | Key financial system audits (Q2) |
| Procurement | 6 | Procurement compliance (Q3) |
| Housing | 4 | Housing allocations and rent audit (Q2) |
| Social care | 2 | Eclipse system (Q2) |
| Safeguarding training and policies | 17 | Safeguarding (Q2) |
| Schools | 2 | School audits (Q3/4) |
| | 86 | |

- 4.8 Those actions which remain open following audit review will form the starting point for monitoring of audit actions for the Council. All actions arising from Internal Audit reports finalised from the current year's plan will also be included in the action tracking. All future Internal Audit progress reports to the Audit and Governance Committee will include a section on implementation rates and will seek to draw Members' attention to any high risk actions which remain overdue beyond the agreed timeframe for completion. Internal Audit will adopt a monthly follow up process with management teams to feed into the committee reporting cycles.

5. Issues and Choices

- 5.1 The Committee is being requested to note the update on open actions and how these are to be followed up by the Internal Audit team.

6. Implications (including financial implications)

6.1 Resources and Financial

- 6.1.1 None specific to this report.

6.2 Legal

- 6.2.1 None specific to this report.

6.3 Risk

- 6.3.1 None specific to this report. Ensuring implementation of outstanding Internal Audit recommendations will, however, assist in effectively managing the Council's risks.

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 None.

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Audit and Governance Committee 27th September 2021

| | | |
|---------------------------------|---|--|
| Report Title | Internal Audit progress report | |
| Report Author | Rachel Ashley-Caunt, Head of Internal Audit & Counter Fraud | |
| Contributors/Checkers/Approvers | | |
| North MO | | |
| North S151 | | |
| Other Director/SME | | |

List of Appendices

Appendix 1: Internal Audit progress report

1. Purpose of Report

- 1.1 To provide the committee with a progress update on the work of the Internal Audit team and the key findings from audits completed to date.

2. Executive Summary

- 2.1 The Internal Audit service is delivering against the schedule of work presented to the Committee at the meeting in July 2021. This plan of work is subject to ongoing review and prioritisation to ensure it focuses on the Council's key risks. During the year to date all assignments planned for the first quarter have been completed and have either been finalised or are in advanced stages of delivery or clearance at the time of reporting. Good progress is being made on progressing quarter two audit work, although some assignments have been delayed to co-ordinate with other developments and work underway in the respective service areas.

3. Recommendations

- 3.1 It is recommended that the Committee:
- a) Note the progress report attached as Appendix 1.
- 3.2 Reason for Recommendations –
- For the Committee to exercise its duties and responsibilities within its Terms of Reference for receiving reports from the Internal Audit service and considering the main issues arising.

4. Report Background

- 4.1 The Internal Audit service is progressing work from the draft plans presented to the Audit and Governance Committee on 12th July 2021. Of the planned work for quarter one, 100% is either finalised or in advanced stages of delivery and reporting. The key findings of four audits completed during the year to date are provided within Appendix 1 for the committee's consideration.
- 4.2 A copy of the planned schedule of work for 2021/22 and the status of each assignment is provided for the Committee's information. These assignments continue to be progressed and subject to re-prioritisation, as appropriate. No significant amendments to the audit plan are proposed at this time but one assignment initially planned for the third or final quarter of the year has been brought forward, in relation to the Eclipse social care management system, and some assignments initially scheduled for delivery in quarter two have been delayed following initial planning discussions. The Head of Internal Audit is meeting with senior management across the organisation to schedule audit work in advance and co-ordinate with staff availability, risk prioritisation and other sources of assurance.
- 4.3 Also included is an update on counter fraud activity and the implementation of the Fraud Hub.
- 4.4 Further updates on the findings of assignments and progress made will be provided to the Committee at each meeting.

5. Issues and Choices

- 5.1 The report provides an update on delivery of the internal audit work for 2021/22. There are no alternative recommendations arising from this report.

6. Implications (including financial implications)

6.1 Resources and Financial

- 6.1.1 None specific to this report.

6.2 Legal

- 6.2.1 None specific to this report.

6.3 Risk

- 6.3.1 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 None.

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Appendix 1



Internal Audit Progress Report

September 2021

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit & Governance Committee to scrutinise the performance of the Internal Audit Team and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the Internal Audit service.

2. Performance

- 2.1 The Internal Audit team is working on the delivery of the planned audit assignments for 2021/22, as agreed at the July 2021 meeting of the Audit and Governance Committee. The progress on delivery of assignments to date is summarised in Table 1:

Table 1: Progress on delivery of audit plan assignments

| Planned start date | % underway or complete | % at draft or final report stage | Comments |
|-----------------------------------|------------------------|----------------------------------|---|
| Q1 (April 2021 – June 2021) | 100% | 61% | All assignments in advanced stages of delivery or complete. |
| Q2 (July 2021 – September 2021) | 56% | 6% | Remaining assignments to progress upon finalising Q1 reports. |
| Q3/Q4 (October 2021 – March 2022) | 4% | - | One assignment prioritised for earlier delivery. |

- 2.2 A full copy of the current audit plan is provided as Table 3, on pages 8 to 13 of this report. The timing of some of the Q2 assignments has been delayed following initial discussions with senior management in order to co-ordinate with staff availability/resource pressures and when the audit would add the most value. The following assignments, originally planned for Q2, have been delayed to Q3 following initial planning discussions:

- Development control – some internal review of processes is underway within the service area and it was agreed to delay audit work until this had progressed, to ensure the audit would add value in reviewing existing control frameworks;
- Safeguarding - to co-ordinate with appointment of Assistant Director - Safeguarding, Well-being and Provider Services and provide an opportunity to engage this senior lead in the planning and delivery of this work; and

- ICT – extensive work on the IT strategy and supporting policies/controls is underway. It is intended to co-ordinate audit work to seek to add value to these processes. Assurances over key cyber security controls being obtained in the meantime.

3. Key findings

- 3.1 The Internal Audit service has finalised reports in respect of four assignments from the 2021/22 Internal Audit Plan. The key findings arising from those audits are summarised as follows:

Key governance documents, policies & records

The Council has made good progress in developing the key governance documents and policies necessary to provide an overall control framework within which to deliver services to the public. The Internal Audit review was able to confirm that sufficient progress had been made to ensure that the Council operated on a 'safe and legal' basis from Vesting Day on 1st April 2021. The full audit report provides an independent position statement on the extent to which key governance documents, policies and records have been developed and approved. The report also includes a number of recommendations in respect of further action necessary to make further progress in establishing comprehensive governance and control framework.

It is recognised that development of key governance documents and policies is an ongoing process and that this audit was therefore requested by management to provide an independent assessment of progress thus far and action still to be completed. For this reason, it is not considered appropriate to provide an overall assurance opinion, as would normally be the case when established systems are audited.




Legacy bank accounts

The four legacy District/Borough Council bank accounts are being managed by separate teams at North Northamptonshire Council. Discussions held with the Assistant Director of Finance & Strategy confirmed that bank reconciliations relating to bank accounts for the former East Northamptonshire Council (ENC) and Corby Borough Council (CBC) remain significantly behind the required timescale for completion, with none yet available for the 2020/21 year or the 2021/22 year to date. Reconciliations for all Kettering Borough Council (KBC) and the Borough Council of Wellingborough (BCW) bank accounts up to the end of the 2020/21 year are completed. For the 2021/22 year, Internal Audit were able to confirm that the June 2021 reconciliation had been undertaken for the KBC main bank account, and for the 5 main BCW bank accounts. Mandates have generally been completed for most bank accounts, but require further update at ENC. There were some former KBC bank account mandates that were not made available at time of audit, so management still need to confirm that these have been actioned.

In summary, this audit has concluded that there are appropriate controls in place to manage the bank accounts of the former BCW and KBC, but the lack of any bank reconciliations for CBC and ENC for the 2020/21 year and 2021/22 year to date remains a serious weakness that management are in the process of addressing. As the opinion to be provided for this audit covers control of legacy bank accounts for all four former District/Borough Councils, Internal Audit are only able to provide an overall opinion of limited assurance due to the lack of CBC and ENC bank account reconciliations. It

is worth noting that the North Northants finance team has inherited poor systems of control over bank accounts at the former CBC and ENC, with lack of bank account reconciliations being a significant contributory factor in the limited assurance opinions provided on the 2020/21 Main Accounting audits delivered for these Councils whilst they were still in existence.

Based upon the fieldwork completed, the following assurance opinions have been given:

| Internal Audit Assurance Opinion | | |
|----------------------------------|--|----------|
| Control Environment |  | Limited |
| Compliance |  | Limited |
| Organisational Impact |  | Moderate |




Bank reconciliations

The audit confirmed that the control environment is based on clearly defined procedures and both operational management / professional finance oversight which provides a robust system for the administration of bank account reconciliations.

In compliance testing on the reconciliations for the periods of April and May 2021, significant levels of unreconciled items were highlighted - both in terms of number and value. Further investigation confirmed that in many cases these had been reconciled in the subsequent reconciliation but due to the limited coverage of the current financial year it is not possible for Internal Audit to give a higher level assurance over the resolution of unreconciled items at this point. Internal Audit are engaging with the Finance team to seek to support the development of controls for resolving unreconciled items and will re-visit compliance at the end of this financial year.

The organisational impact of the findings is assessed as Moderate. This reflects the importance of robust bank account reconciliations on ensuring the accuracy of financial records and identification of fraud and error. Significant levels of unreconciled items undermine the integrity of the bank reconciliation and its value.

Based upon the fieldwork completed, the following assurance opinions have been given:

| Internal Audit Assurance Opinion | | |
|----------------------------------|--|--------------|
| Control Environment |  | Good |
| Compliance |  | Satisfactory |
| Organisational Impact |  | Moderate |

Government Procurement Cards (GPCs)

GPCs are administered on behalf of the Council by Cambridgeshire County Council. Whilst the system has only been in operation at the Council since April 2021, the systems in place for administering GPCs have been in place for a number of years. Based on the audit findings, the assurance given to

the system design is Satisfactory. The Council has appropriate systems in place to support the use of GPC including:



- Clearly documented procedural guidance;
- The requirement for all new GPC requests to be approved by the Assistant Director of Finance and Strategy;
- Controls over card / transaction limits as well as the type of purchases that can be made; and
- Reports available around the type and value of purchases which include information on whether purchases have been reviewed and approved in line with GPC procedures.

The level of assurance reflects the fact there is an in-built risk with the use of a GPC as because purchases are made instantly, all checks are retrospective and there is no system mechanism to ensure all purchases are subject to retrospective review and approval. Additionally, the review has highlighted the following issued that require action:

- No review has been undertaken by the Council of the GPC cards issued through the work of the Future Northants Programme exercise to gain assurance that these are needed or that access granted to restricted purchasing categories is appropriate.
- Eleven cards did not have an approving officer allocated to them so any spend on these cards is not currently subject to independent approval by a designated officer. In April and May, only eleven purchases have been made through these cards, with a combined value of £1,331.
- No formal reporting / monitoring arrangements have yet been agreed for GPC.

Given the audit has covered only a small period in the early stages of the Council operating, it is not felt appropriate that an assurance level in respect of compliance can be provided at this stage. However, testing of compliance with GPC procedures highlighted that to date, 26% of transactions were not reviewed by the cardholder and 80% of transactions were not approved by a designated officer. This will be revisited in transactional testing of local finance systems in early 2022.

Based upon the fieldwork completed, the following assurance opinions have been given:

| Internal Audit Assurance Opinion | | |
|----------------------------------|---|--------------|
| Control Environment |  | Satisfactory |
| Compliance | | N/A |
| Organisational Impact |  | Minor |

4. *Investigation activity*

- 4.1 The Counter Fraud team, led by the Council's Head of Internal Audit and Counter Fraud service, are set up to receive and handle referrals regarding allegations of fraud, misconduct and irregularities via a number of channels. There is a fraud reporting mailbox available to internal and external stakeholders, in addition to the whistleblowing procedures and general service referrals.
- 4.2 All referrals are logged, assessed and allocated to the relevant party for investigation, where appropriate. Included in Table 2 is a summary of referral activity within the service during the financial year to date. Whilst investigations are progressing, it is not appropriate for further details of allegations to be shared at the risk of jeopardising formal investigation outcomes.

Table 2: Investigation statistics to date

| Description | Number | Comments |
|---|----------------------------|--|
| Referrals received to date | 20 | |
| Breakdown of referral type: <ul style="list-style-type: none"> - Blue badge - Housing - Revenues & benefits - Grants - Parking - Agency staff | 5 4 7 2 1 1 | Referrals received via dedicated mailbox and internal intelligence. |
| Referrals closed at time of reporting | 19 | |
| Breakdown of outcomes: <ul style="list-style-type: none"> - Referred to partner agency - Property/monies being recovered - Advice to service area on controls - No further action following initial enquiries | 9 1 1 8 | <p>All grant related frauds were attempts which had not been successful with no loss incurred, evidencing the robust fraud prevention controls in place. All attempts are still reported to the national fraud authorities and central government.</p> <p>In one case, the fraud team are supporting management in recovery of monies (value to be determined but significantly lower than potential loss). Further update will be provided upon conclusion.</p> |









- 4.3 In addition to the reactive investigation work, the counter fraud officers have also been working extensively on the implementation of the new Fraud Hub for North Northamptonshire Council. This is a system provided by the Cabinet Office which enables real time matching of data sets and intelligence to identify potential indicators of fraud. The Council signed up to this service and the counter fraud team are prioritising use of the system for the Council's highest fraud risk areas. To date, the system has already been used to conduct analysis on pension data, for example, and this has flagged eight cases where it would appear that death notifications had not been received, payments were ongoing and overpayments are due. Such work thereby enables further loss to be prevented and recovery action to take place promptly. The counter fraud officers are supporting service areas on interpreting and processing the findings and appropriate action. Other areas which are currently being prioritised for testing are payroll, single person discounts and housing.
- 4.4 The counter fraud officers are also ensuring that all data matches which remain open from the latest National Fraud Initiative (NFI) data matching exercises at the legacy councils have been resolved and reported on. All councils are signed up to this initiative but following detailed analysis by the counter fraud officers it is noted that some of the legacy councils had not historically uploaded all of the compulsory data sets and had, as such, missed out on checking for any indicators of fraud in those areas. Where this has been noted, the counter fraud officers are uploading the latest versions of this data via the Fraud Hub tool to check for any indicators which had been missed and progressing these for investigation as required.

Table 3: Progressing the Annual Internal Audit Plan

KEY

Current status of assignments is shown by shading

| Assignment | Initial timing planned | Not started | Planning | Fieldwork underway | Fieldwork complete | Draft report | Final report / complete | Control Environment | Compliance | Org impact | Comments |
|--|------------------------|-------------|----------|--------------------|--------------------|--------------|-------------------------|--|------------|------------|-----------------|
| Governance | | | | | | | | | | | |
| Risk Management strategy | Q1 | | | | | | | Strategy adopted and risk management workshop facilitated in June 2021. | | | |
| Key Governance Documents, Policies & Records | Q1 | | | | | | | No assurance opinion given as no audit testing conducted – rather, gap analysis provided for prioritisation by management. | | | See section 3.1 |
| Assurance opinions and annual reporting for sovereign councils | Q1 | | | | | | | Annual reports and opinions presented at July 2021 Audit and Governance Committee meeting | | | |
| Risk management – facilitation | Q1 | | | | | | | Ongoing throughout financial year | | | |
| Risk management – audit coverage | Q2 | | | | | | | | | | |
| COVID-19 Restart grants | Q2 | | | | | | | Grant certification provided to central government | | | |
| Financial Management | Q2 | | | | | | | | | | |

| Assignment | Initial timing planned | Not started | Planning | Fieldwork underway | Fieldwork complete | Draft report | Final report / complete | Control Environment | Compliance | Org impact | Comments |
|---|------------------------|-------------|----------|--------------------|--------------------|--------------|-------------------------|---|---|---|-----------------|
| Transformation | Q3/4 | | | | | | | | | | |
| 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. | | | | | | | | | | | |
| Legacy bank accounts | Q1 | | | | | | | Limited  | Limited  | Moderate  | See section 3.1 |
| Bank reconciliations | Q1 | | | | | | | Good  | Satisfactory  | Moderate  | See section 3.1 |
| General ledger | Q1 | | | | | | | | | | |
| Government Procurement Cards (GPCs) | Q1 | | | | | | | Satisfactory  | N/A | Minor  | See section 3.1 |
| Accounts payable | Q1 | | | | | | | | | | |
| Manual interface payments | Q1 | | | | | | | | | | |
| Cashflow from sundry income | Q1 | | | | | | | | | | |
| Debt recovery | Q1 | | | | | | | | | | |
| Payroll | Q1 | | | | | | | | | | |
| Treasury management | Q1 | | | | | | | | | | |

| Assignment | Initial timing planned | Not started | Planning | Fieldwork underway | Fieldwork complete | Draft report | Final report / complete | Control Environment | Compliance | Org impact | Comments |
|--|------------------------|-------------|----------|--------------------|--------------------|--------------|-------------------------|---------------------|------------|------------|----------|
| IT financial controls | Q1 | | | | | | | | | | |
| Year end accruals | Q1 | | | | | | | | | | |
| Financial decision making | Q1 | | | | | | | | | | |
| Council tax | Q2 | | | | | | | | | | |
| Housing benefits | Q2 | | | | | | | | | | |
| Legacy debts | Q2 | | | | | | | | | | |
| Business rates | Q4 | | | | | | | | | | |
| Adults, Communities and Wellbeing Services Priorities and Risks | | | | | | | | | | | |
| Safeguarding vulnerable adults | Q2 | | | | | | | | | | |
| Financial operations | Q2 | | | | | | | | | | |
| Procurement and contracts audit | Q2 | | | | | | | | | | |
| Housing allocations and rents | Q2 | | | | | | | | | | |
| Landlord Health and Safety | Q3/4 | | | | | | | | | | |
| Lettings and voids | Q3/4 | | | | | | | | | | |

| Assignment | Initial timing planned | Not started | Planning | Fieldwork underway | Fieldwork complete | Draft report | Final report / complete | Control Environment | Compliance | Org impact | Comments |
|--|------------------------|-------------|----------|--------------------|--------------------|--------------|-------------------------|---------------------|------------|------------|----------|
| Rent arrears | Q3/4 | | | | | | | | | | |
| Homelessness and temporary accommodation | Q3/4 | | | | | | | | | | |
| Guardianship and Appointees | Q3/4 | | | | | | | | | | |
| Adult social care | Q3/4 | | | | | | | | | | |
| Place Services Priorities and Risks | | | | | | | | | | | |
| S106 monitoring | Q2 | | | | | | | | | | |
| Asset / property management | Q2 | | | | | | | | | | |
| Parking income | Q2 | | | | | | | | | | |
| Development control | Q2 | | | | | | | | | | |
| Leisure service contracts | Q3/4 | | | | | | | | | | |
| Taxi licensing | Q3/4 | | | | | | | | | | |
| Procurement and contracts audit | Q3/4 | | | | | | | | | | |
| Capital projects | Q3/4 | | | | | | | | | | |

| Assignment | Initial timing planned | Not started | Planning | Fieldwork underway | Fieldwork complete | Draft report | Final report / complete | Control Environment | Compliance | Org impact | Comments |
|--|------------------------|-------------|----------|--------------------|--------------------|--------------|-------------------------|---------------------|------------|------------|----------|
| Children's services | | | | | | | | | | | |
| Schools thematic review | Q3/4 | | | | | | | | | | |
| Children's Trust commissioning | Q3/4 | | | | | | | | | | |
| Corporate and cross cutting reviews | | | | | | | | | | | |
| Procurement compliance | Q3/4 | | | | | | | | | | |
| ICT – Access controls | Q2 | | | | | | | | | | |
| ICT – Cyber security | Q2 | | | | | | | | | | |
| ICT – Disaster recovery | Q2 | | | | | | | | | | |
| ICT- Interfaces | Q3/4 | | | | | | | | | | |
| Eclipse – social care system | Q3/4 | | | | | | | | | | |
| Pensions | Q3/4 | | | | | | | | | | |
| Health and safety | Q3/4 | | | | | | | | | | |
| Human resources | Q3/4 | | | | | | | | | | |
| Information governance | Q3/4 | | | | | | | | | | |

| Assignment | Initial timing planned | Not started | Planning | Fieldwork underway | Fieldwork complete | Draft report | Final report / complete | Control Environment | Compliance | Org impact | Comments |
|------------------------|------------------------|-------------|----------|--------------------|--------------------|--------------|-------------------------|---------------------|------------|------------|----------|
| Partnership assurances | Q3/4 | | | | | | | | | | |
| Customer services | Q3/4 | | | | | | | | | | |
| Grant certifications | - | | | | | | | | | | |

The Auditor's Opinion

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

| Compliance Assurances | | |
|-----------------------|---|---|
| Level | Control environment assurance | Compliance assurance |
| Substantial ● | There are minimal control weaknesses that present very low risk to the control environment. | The control environment has substantially operated as intended either no, or only minor, errors have been detected. |
| Good ● | There are minor control weaknesses that present low risk to the control environment. | The control environment has largely operated as intended although some errors have been detected. |
| Satisfactory ● | There are some control weaknesses that present a medium risk to the control environment. | The control environment has mainly operated as intended although errors have been detected. |
| Limited ● | There are significant control weaknesses that present a high risk to the control environment. | The control environment has not operated as intended. Significant errors have been detected. |
| No ● | There are fundamental control weaknesses that present an unacceptable level of risk to the control environment. | The control environment has fundamentally broken down and is open to significant error or abuse. |

| Organisational Impact | | |
|-----------------------|---|---|
| Level | | Definition |
| 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. |

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit & Governance Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention. As a consequence, the Audit & Governance Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Audit and Governance Committee 27th September 2021

| | | |
|---------------------------------|---|--|
| Report Title | External Audit progress report | |
| Report Author | Janice Gotts, Executive Director of Finance | |
| Contributors/Checkers/Approvers | | |
| North MO | | |
| North S151 | | |
| Other Director/SME | | |

List of Appendices

Appendix 1: External Audit progress report

1. Purpose of Report

- 1.1 To provide the committee with a progress update on the work being undertaken by the external auditor, Grant Thornton. The report also includes a sector update which provides a summary of emerging national issues and areas for the Committee to consider in relation to these.

2. Executive Summary

- 2.1 The Council's external auditors will undertake initial planning work for the 2021/22 audit in November/December 2021. The progress report sets out what this initial planning involves and the key deliverables.

3. Recommendations

- 3.1 It is recommended that the Committee:
- a) Note the progress report and sector update attached as Appendix 1.
- 3.2 Reason for Recommendations –
- For the Committee to exercise its duties and responsibilities within its Terms of Reference for considering reports of the External Auditor.

4. Report Background

- 4.1 The external auditor's progress report attached at Appendix 1 provides the committee with an update on planning for the 2021/22 external audit work. Planning work is due to commence in November/December 2021 and the

timeframes for the key deliverables are detailed. It is planned that audit findings will be reported in September 2022.

4.2 The sector update includes an explanation of the new approach to assessing and reporting on Value for Money.

4.3 The update also includes a summary of guidance on accounting for grants and an overview of two recent publications from the National Audit Office.

5. Issues and Choices

5.1 The report provides a factual update on delivery of the external audit planning for 2021/22, together with briefings on matters of local government interest. There are no alternative recommendations arising from this report.

6. Implications (including financial implications)

6.1 Resources and Financial

6.1.1 None specific to this report.

6.2 Legal

6.2.1 None specific to this report.

6.3 Risk

6.3.1 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 None.

North Northamptonshire Council Audit Progress Report

Year ending 31 March 2022

15 September 2021

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Appendix

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

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Introduction

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*Details of the 2021/22 portfolio of clients for our managers and in-charges have not been agreed yet. We will update you on the names of the audit manager and in-charge once those portfolios have been agreed.

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact your Engagement Lead.

Progress at September 2021

Introductions

Since our appointment as auditors to North Northamptonshire Council we have met with the Chief Executive and the Executive Director of Finance to do general introductions in July.

In September 2021 we met with the Executive Director of Finance, colleagues from West Northamptonshire Council and Representatives of Ernst & Young LLP to discuss audit liaison arrangements and the proposed timescales for the completion of the 2019/20 and 2020/21 audits of the predecessor authorities.

Financial Statements Audit - Council

We will undertake our initial planning work for the 2021/22 audit in November/December 2021. As some of the audits of the predecessor bodies will still be in progress at that stage, we may need to top up our audit work in January 2022 when those audits are scheduled to be complete.

Our initial planning includes:

- Review of the Authority's control environment
- Meeting the Executive Directors to understand their risks and responsibilities
- Understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Authority makes material estimates for the financial statements
- Early work on emerging accounting issues

We expect to issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements in February 2022.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the end of September 2022.

Financial Statements Audit – Pension Fund

We will undertake our initial planning work for the 2021/22 audit in November/December 2021.

Our initial planning includes:

- Review of the Pension Fund's control environment
- Meeting the Executive Directors to understand their risks and responsibilities
- Understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Pension Fund makes material estimates for the financial statements
- Early work on emerging accounting issues

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. As for the financial statements audit we will undertake our initial planning work for the 2021/22 audit in November/December 2021, once the 2020/21 audits of the predecessor bodies are complete.

Progress at September 2021

Other Areas

Meetings

We have discussed establishing a regular programme of liaison meetings with the Executive Director of Finance and the Chief Executive.

We will also seek to hold two meetings each year with the Leader of the Council. We will also hold one meeting each year with the Audit Committee without the officers being present.

Requests for audit view of 2021/22 matters

We have not received any requests for views on 2021/22 audit matters as at the start of September 2021.

Audit Deliverables – Council

| 2021/22 Deliverables | Planned Date | Status |
|--|----------------|-------------|
| Audit Plan We are required to issue a detailed audit plan to the Audit and Risk Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements. | February 2022 | Not yet due |
| Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report. | June 2022 | Not yet due |
| Audit Findings Report The Audit Findings Report will be reported to the September Audit and Risk Committee. | September 2022 | Not yet due |
| Auditors Report This is the opinion on your financial statements. | September 2022 | Not yet due |
| Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work. | September 2022 | Not yet due |

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from Local Government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

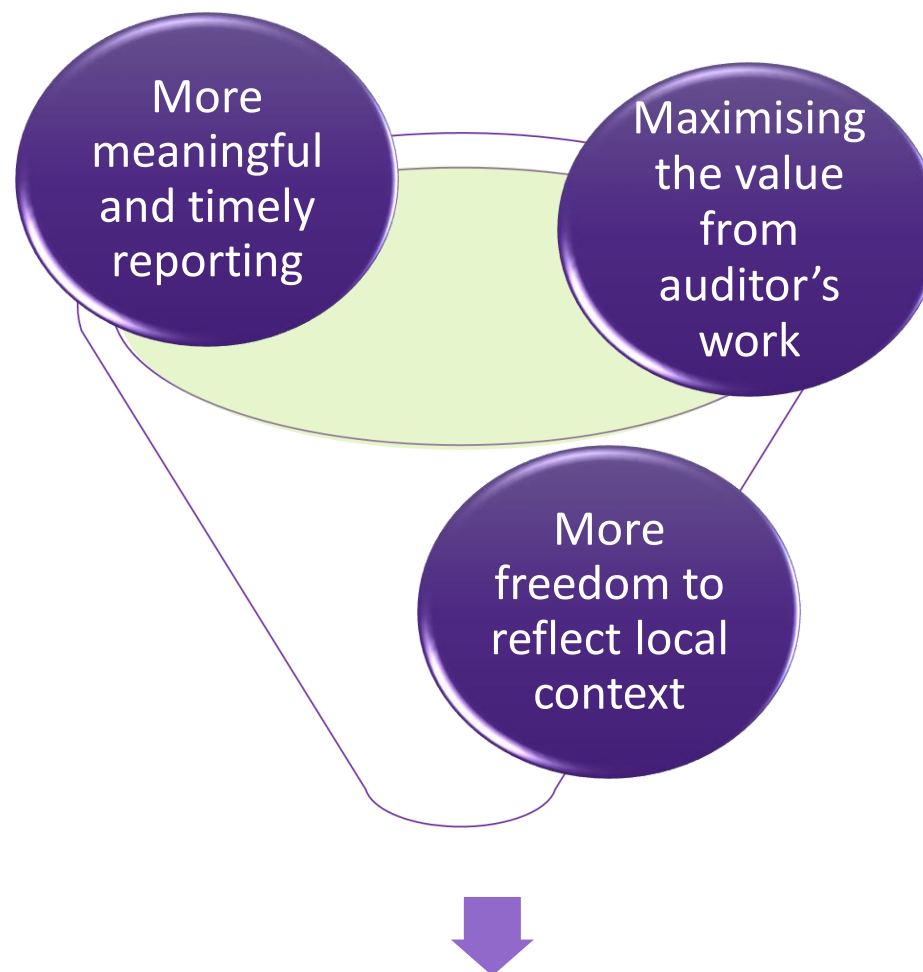
The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
 - how the body evaluates the services it provides to assess performance and identify areas for improvement;
 - how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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VFM arrangements commentary and recommendations

The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

| Section of report | Content |
|--|--|
| Commentary on arrangements | An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. |
| Recommendations | Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement. |
| Progress in implementing recommendations | Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily. |
| Use of additional powers | Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report. |
| Opinion on the financial statements | The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. |

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

| Type of recommendation | Definition |
|----------------------------|--|
| Statutory recommendation | Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report. |
| Key recommendation | Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them |
| Improvement recommendation | Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved |

Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your Audit Manager for the full report:



Local government finance in the pandemic – National Audit Office

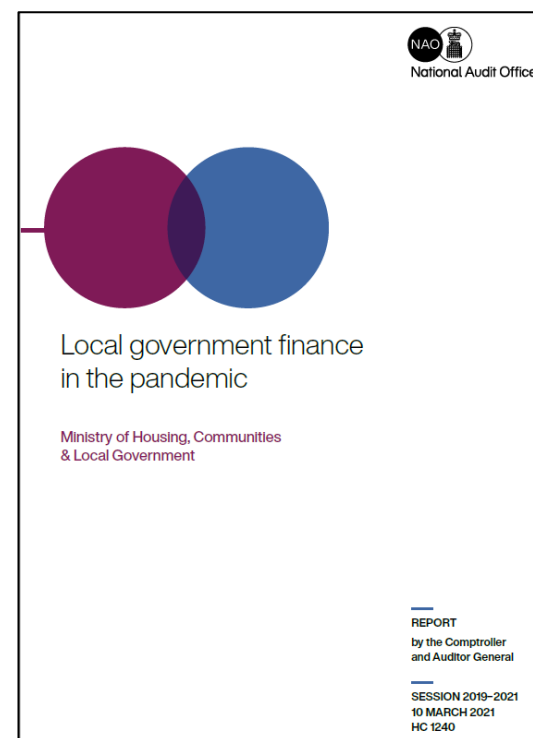
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

