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Meeting: Audit and Governance Committee

Date: Thursday 5th May, 2022

Time: 2.00 pm

Venue: Council Chamber, Swanspool House, Doddington Road, Wellingborough, Northants, NN8 1BP

To:

Members of the Audit and Governance Committee

Councillors Andrew Weatherill (Chair), Kirk Harrison (Vice-Chair), Jean Addison, Matt Binley, Ian Jelley, Anne Lee, Richard Levell, Mark Pengelly, Russell Roberts and Kevin Watt

Substitutes:

Councillors Valerie Anslow, John Currall, Bert Jackson, Matt Keane, Paul Marks, Peter McEwan and Lee Wilkes

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Adele Wylie, Monitoring Officer
North Northamptonshire Council

Proper Officer
Tuesday 26 April 2022

This agenda has been published by Democratic Services.
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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.

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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

Minutes of the Audit and Governance Committee
Monday 14th March, 2022
at 2:00 pm in the Council Chamber, Cedar Drive, Thrapston, NN14 4LZ

Present:-

Members

Councillor Andrew Weatherill (Chair)
Councillor Matt Binley
Councillor Ian Jelley
Councillor Richard Levell
Councillor Kirk Harrison (Vice Chair)
Councillor Anne Lee
Councillor Russell Roberts

Officers

Claire Edwards (Assistant Director of Finance and Accountancy)
Rachel Ashley-Caunt (Chief Internal Auditor)
Fiona Hubbard (Senior Democratic Services Officer – Committee Administrator)
Raj Sohal (Democracy Officer)

Also in attendance – Councillor Lloyd Bunday, Portfolio Holder for Finance and Transformation and Councillor Bert Jackson.

42 Apologies for non-attendance

It was noted that apologies for absence were received from Councillors Addison, Pengelly and Watt.

Apologies were also received from Neil Harris (Ernst & Young) and Ciaran McLaughlin (Grant Thornton) – External Auditors.

43 Members' Declarations of Interest

The Chair invited those who wished to do so to declare interests in respect of items on the agenda.

There were no declarations received.

44 Minutes of the meeting held on 31 January 2022

RESOLVED:-

(i) The minutes of the Audit and Governance Committee held on 31 January 2022, be confirmed as a correct record and signed.

Update – Legacy Accounts

The Assistant Director of Finance and Accountancy updated the Committee on the legacy accounts for the previous Sovereign Councils.

She was able to confirm that the accounts for the Borough Council of Wellingborough had been signed off and was hopeful that the accounts for Kettering Borough Council would also be signed off shortly.

In relation to Corby Borough Council, officers were working with the valuer to go through any queries in relation to the asset valuation and the accounts would then be "soft closed" and the draft accounts for 2019/20 and 2020/21 were due shortly. For East Northamptonshire District Council, officers were similarly working with the valuer in relation to any queries for 2019/20 and 2020/21.

Several comments were made by the Committee in relation to the lack of progress in relation to the accounts and associated audits and what could be done to resolve this. The Assistant Director of Finance and Accountancy explained the reasons behind the delay and there had been a lack of resources on both sides.

45 Internal Audit Plan 2022-2023

The Committee considered a report of the Chief Internal Auditor with the draft Internal Audit Plan for 2022/23 which would form the schedule of work for the Internal Audit team for the financial year.

The Chief Internal Auditor presented the report and explained in detail the key areas and points within the draft Internal Audit Plan.

Arising from consideration of the report and discussion, the Chief Internal Auditor responded to questions of clarification from the Committee and the following principal comments were made:

(i) A question was raised if more time was required for engagement with the schools forum and pro-active support, housing repairs and ICT asset management and the Chief Internal Auditor explained in detail the breakdown and justification of the audit days scheduled;

(ii) The Committee was concerned with the challenge that vacant posts for internal audit still needed to be recruited to following the disaggregation of the shared internal audit service. The Chief Internal Auditor clarified that the advert for vacancies was to go out as soon as possible. She was keeping this under review but in the meantime, she confirmed she did have staff with experience and also access to experienced contractors who had worked with the former Sovereign Councils of the Borough Council of Wellingborough and Kettering Borough Council who she can rely upon to provide resource;

(iii) The decision to move towards "real time assurances" referred to in the report was welcomed as a modern and proactive approach. She would report findings back to the Committee. She would also be happy to consider any particular risks highlighted by the Committee.

RESOLVED:-

(i) The Audit and Governance Committee approved the Audit Plan for 2022/23.

46 **Internal Audit Progress Report**

The Committee considered a report of the Chief Internal Auditor with a progress update on the work of the Internal Audit team and the key findings from audits completed to date.

The Chief Internal Auditor presented the report and explained in detail the key areas and points within the progress report.

Arising from consideration of the report and discussion, the Chief Internal Auditor responded to questions of clarification from the Committee and the following principal comments were made:

(i) A concern was raised that two Sovereign Councils had no effective control account reconciliations for housing benefits completed during the financial year 2021/22;

(ii) In relation to the bank reconciliations and Housing Benefits and Council Tax, it was noted the difficulties to control 4 separate teams and different systems. The Committee would like assurance at the next meeting of the Audit and Governance Committee in May that these matters are resolved;

(iii) It was noted that 38% of the audit work was still underway. The Chief Internal Auditor explained how the fieldwork for the audits was reviewed and how she oversaw the work. She was hopeful that the majority of fieldwork would be completed by the end of March;

(iv) A query was raised as to whether the Internal Audit Team have access to software which can provide reports on management actions. The Chief Internal Auditor confirmed that audit software was in use and she would be happy to take feedback from the Committee as to any further details or data they wished to see in future progress reporting;

(v) The Chair asked the Internal Auditor if sufficient audit work will have been completed to enable an overall audit opinion to be reached for the Annual Governance Statement. She responded that there would be sufficient coverage to report an overall opinion.

RESOLVED:-

(i) The Audit and Governance Committee noted the Internal Audit progress report.

47 **Strategic Risk Register Update**

The Committee considered a report of the Chief Internal Auditor with a quarterly update on the Council's Strategic Risk Register entries.

The Chief Internal Auditor presented the report and explained in detail the key areas and points in relation to the risk management update within the Council's Strategic Risk Register.

Arising from consideration of the report and discussion, the Chief Internal Auditor responded to questions of clarification from the Committee and the following principal comments were made:

(i) A query was raised in relation to what process was applied for any risks identified as requiring escalation to the Strategic Risk Register. The Chief Internal Auditor reported that directorate management teams own their own risk registers and they are encouraged to propose any emerging risks that require escalation. Some risks may be escalated because they are cross cutting, affecting multiple service areas, and others may be because their risk likelihood or impact is so sufficient that it poses an organisational risk. The risks identified in escalation are then considered by the Council's Leadership Team for inclusion on the Strategic Risk Register. The Committee asked the Chief Internal Auditor to highlight to the Leadership Team the need to embed a risk management culture across the organisation in order to continue to develop risk management and its effectiveness;

(ii) A comment was made with regards to legacy issues. The Chief Internal Auditor explained that these are weaknesses that the Council has inherited which now have to be dealt with. Four legacy revenue and benefit systems was an example given for which internal audit would have a part to play in relation to improvements to these systems.

RESOLVED:-

(i) The Audit and Governance Committee noted the risk management update.

48 Payments Investigation - East Northamptonshire

Exclusion of the Press and Public

A resolution to exclude the press and public was proposed and seconded.

RESOLVED:

In accordance with Section 100A(4) of the Local Government Act 1972 (as amended) the press and public be excluded from the meeting during consideration of the item on the grounds that it would involve the likely disclosure of exempt information of the description shown in Schedule 12A, under paragraph 7 – Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

The Audit and Governance Committee received and considered the report in relation to a Payments Investigation at East Northamptonshire District Council, which was presented and explained by the Assistant Director of Finance and Accountancy.

RESOLVED:-

(i) The Audit and Governance Committee noted the information outlined in the report.

49 Close of Meeting

There being no further items of business, the Chair declare the meeting closed.

____
Chair

____
Date

The meeting closed at 3.22 pm

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North Northamptonshire Council

NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

5th May 2022

Report Title	**Internal Audit Charter and Strategy**	
Report Author	**Rachel Ashley-Caunt, Chief Internal Auditor**	
Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME		

List of Appendices

Appendix 1: Internal Audit Charter and Strategy

1. Purpose of Report

1.1 To present the Internal Audit Charter and Strategy for the Committee's approval.

2. Executive Summary

2.1 The Internal Audit Charter and Strategy sets out how the Council's Internal Audit service is delivered and how it complies with statutory requirements and professional standards. The Charter and Strategy should be approved by the Audit & Governance Committee on an annual basis.

3. Recommendations

3.1 It is recommended that the Committee:

a) Approve the Internal Audit Charter and Strategy attached as Appendix 1.

3.2 Reason for Recommendations –

- For the Committee to exercise its duties and responsibilities within its Terms of Reference for overseeing delivery of the Internal Audit service.

4. Report Background

4.1 Since 1st April 2022, the Council's Internal Audit service is now delivered by an in house audit team, led by the Chief Internal Auditor. An Internal Audit Charter and Strategy had been approved by the Audit and Governance Committee in July 2021, under the former shared service. In order to align the approval of the document with the start of the new financial year, and to reflect the approach and structure of the new in house service, the Charter and Strategy has been fully reviewed and is presented to the Committee for approval.

4.2 The Charter and Strategy is aligned with the Public Sector Internal Audit Standards and establishes Internal Audit activity's position within the Council and reporting lines. The Charter confirms that Internal Audit is authorised to access records, personnel and physical property relevant to the performance of audit work and defines the scope of Internal Audit activities. As such, a copy of the Charter and Strategy has been shared with the Council's Corporate Leadership Team to ensure that all are aware of the remit and access rights of Internal Audit and are supportive of the audit process.

5. Issues and Choices

5.1 The report provides a copy of the Internal Audit Charter and Strategy for approval. There are no alternative recommendations arising from this report but the Committee may wish to raise queries or request amendments, as appropriate.

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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North Northamptonshire Council

Internal Audit

Charter & Strategy

Executive summary

The Internal Audit Charter defines the purpose, authority and responsibility of North Northamptonshire Council's Internal Audit service. It establishes the scope of the Internal Audit service and outlines how the service complies with statutory requirements and professional standards.

The key principles of North Northamptonshire Council's Internal Audit service are as follows:

- Internal Audit provides an Annual Internal Audit Opinion based on an objective and comprehensive assessment of the Council's framework of governance, risk management and control.
- Internal Audit provides advice and consultancy services with the aim of adding value and improving organisational governance, risk management and control.
- All Council activities fall within the scope of Internal Audit, and the Internal Audit service has a complete right of access to all records and property held by North Northamptonshire Council and to all officers of the Council.
- Internal Audit operates in compliance with Public Sector Internal Audit Standards (PSIAS) and the Chartered Institute of Internal Auditors' Code of Ethics.
- Internal Audit is independent and may report directly to the Chief Executive and the Chair of the Audit and Governance Committee. Regular reporting on audit activity is provided to the Section 151 Officer, Corporate Leadership Team and the Audit and Governance Committee.
- Internal Audit team consists of qualified and part-qualified professionals in assurance and accounting. The service is committed to professional development and continuous quality assurance and improvement.
- Internal Audit staff have a professional duty to operate in ethical way; be honest; and demonstrate integrity at all times, working in line with the Council's Code of Conduct.
- The Internal Audit Charter is regularly reviewed and approved annually by the Audit and Governance Committee and senior management.

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 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 Section 151 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 by an in house team, led by the Chief Internal Auditor.

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 and Governance Committee
'Chief Audit Executive', as per PSIAS	The Chief Internal Auditor
'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. Such examples would 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 issues;
- The Council and its community; and
- 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.

3.6 The mandatory core principles for the Professional Practice of Internal Auditing underpin the way in which the service is delivered and are embedded in ways of working, as detailed in this Charter. The principles ensure Internal Audit:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

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 and Governance Committee, and the senior management team.

4.2 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 and 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 confidentially 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 and 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 and Governance Committee at their discretion, including private meetings with the Chair of the Audit and 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 The Chief Internal Auditor's role includes providing Risk Management support. Responsibility for implementing risk management activity is retained by the relevant officers at the Council, and the role of Internal Audit is to provide advice, support and facilitation for this process rather than to undertake risk management activity directly. Internal Audit reviews of risk management focus on actual risk management activity undertaken by management, not the facilitation work of the Internal Audit team, thus avoiding potential conflicts of interest. This ensures that there is no impairment to Internal Audit's independence and objectivity, as well as ensuring that Internal Auditors have a high degree of familiarity with the principles of risk management within the organisation to inform their assurance work.

5.4 The Internal Audit service also lead on corporate counter fraud work for the Council. Internal Audit lead on investigating whistleblowing referrals relating to fraud and corruption, and financial impropriety.

5.5 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.

5.6 Internal Auditors also sign acceptance of the Internal Auditor's Code of Ethics on an annual basis.

5.7 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.

5.8 The Chief Internal Auditor will confirm to the Audit and 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 counter fraud 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
- 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 though 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, which will be documented in an audit planning record. This record will be approved by the relevant Assistant Director or above, and will set out the risks which will covered within the audit fieldwork;
- Ensuring that the right skills and right approaches are in place for individual assignments;
- Applying an informed, unbiased approach to sample selection and audit testing;
- 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 to address findings which 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 and operating in line with the Council's Code of Conduct and Equality and Diversity policies.

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 Chief Internal Auditor 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 Each draft audit report will be issued to the lead officer and service management/Head of Service for initial comments, responses to recommendations and agreement of accuracy. A final draft will be issued to the Assistant Director for agreement and sign off. Where the report gives an opinion of Limited Assurance or lower, the report will be sent to the relevant Director for sign off, being finalising. A copy of each final audit report is also sent to the Section 151 Officer. Alternative reporting arrangements can be agreed to incorporate specific officers and/or additional senior management leads, as appropriate, where agreed in the scoping of the audit and audit planning record.

6.12 Senior Management shall ensure that agreed corrective actions are introduced.

6.13 Periodic summary reports are issued to the Audit and Governance Committee. Senior management (Director and/or Assistant Director) from the respective service area will be invited to attend the Audit and Governance Committee meeting in respect of any reports receiving an opinion of Limited Assurance or below.

6.14 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 matters arising.

Actions / Recommendations

6.15 Actions are categorised dependent on the risk as follows:

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

Follow up

6.16 All High and Medium actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. Management are asked to provide evidence when an action has been fully implemented.

Quality Assurance

6.17 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.

6.18 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

6.19 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

6.20 The Audit and 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 and Governance Committee.

6.21 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 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 CIPFA) and being suitably experienced; and
- encouraging, and where appropriate acting upon, customer feedback.

7 AUDIT AND GOVERNANCE COMMITTEE OVERSIGHT

7.1 The Chief Internal Auditor will provide regular update reports to the Audit and 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 and 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 Counter 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.

Annex A

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 partially 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 Chief Executive 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.

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NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

5th May 2022

Report Title	**North Northamptonshire Council Draft Accounting Policies 2021/22**	
Report Author	**Claire Edwards – Assistant Director of Finance & Accountancy** **Claire.Edwards@northnorthants.gov.uk**	
Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME	**N/a**	**N/a**

Appendix

Appendix A – NNC Draft Accounting Policies

1. Purpose of Report

1.1. This report sets out the accounting concepts and policies and key sources of estimation that will be used in preparing the 2021/22 annual accounts. It also contains details of a recent emergency consultation on the CIPFA/LASAAC[1] Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

2. Executive Summary

2.1. This report requires the Committee to approve the draft accounting concepts and policies for North Northamptonshire Council's Statement of Accounts for 2021/22 as set out in Appendix A.

2.2. The Committee is also requested to note the key sources of estimation and the outcome of the recent emergency Code consultation.

3. Recommendations

3.1. It is recommended that the Committee.

[1] CIPFA/LASAAC – Chartered Institute of Public Finance and Accountancy/Local Authority Scotland Accounts Advisory Committee

a) Approve the accounting concepts and policies set out in this report and the appendix.

b) Note the key sources of estimation.

c) Note the outcome of the emergency code consultation.

3.2. Reason for Recommendations:

- For the Committee to exercise its duties and responsibilities within its Terms of Reference.

4. Report Background

4.1. The Executive Director of Finance (Section 151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with the CIPFA/LASAAC[2] Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

4.2. North Northamptonshire Council will be producing its first Statement of Accounts for the financial year 2021/22. The accounting policies provide the framework from which the financial statements will be based and are providing the reader of the accounts with a summary of the financial code that applies to the authority and will be reviewed on an annual basis.

4.3. All the accounting policies across the legacy authorities have been reviewed to ensure that any accounting policy that is adopted is appropriate and meets the requirements of the Code.

4.4. Where there are any disparities, these policies will be harmonised for the completion of the 2021/22 Statement of Accounts.

Key Sources of Estimation

4.5. In preparing the annual accounts there are areas where estimates are made. These include:
- useful lives and valuations of properties which are estimated by qualified valuers,
- provision for business rate appeals based on the experience of the outcome of appeals,
- the amount of arrears that will not be collected which is estimated based on expectations of the collection of different types of debt and
- the liability for future pension payments which is estimated by qualified actuaries.

Consultation on emergency proposals for an update of the 2021/22 and 2022/23 Codes of Practice on Local Authority Accounting in the UK

[2] CIPFA/LASAAC – Chartered Institute of Public Finance and Accountancy/Local Authority Scotland Accounts Advisory Committee

4.6. In December 2021, the Department of Levelling-up, Housing and Communities (DLUHC) asked the Chartered Institute for Public Finance and Accountancy (CIPFA) to consider ways in which the Code could assist the timeliness of audit opinions within the local authority sector as the majority (91%) of local bodies missed the statutory deadline of 30 September 2021 for publication of their audited 2020/21 accounts. CIPFA considered a wide range of options as follows:

- Making no changes to the Code
- Changes to valuation approach
- Suspending the requirement for group financial statements
- Decoupling pension fund reporting from the administrating authority financial statements
- Delaying the implementation of IFRS[3]16 – which sets out the requirements for accounting for leases
- Reducing disclosure requirements for pension fund assets in authority financial statements
- Suspending or abating local government input to Whole of Government Accounts
- Non-publication of the 2021/22 financial statements

4.7. After considering these options CIPFA decided to explore two approaches and issued an emergency consultation in February 2022 which considered the following changes to the 2021/22 and 2022/23 Codes:

- An adaptation to the Code to allow Local Authorities to pause professional valuations for operational property, plant and equipment (PPE) for a period of up to two years. This approach also explored the use of an indexing approach for PPE valuations. The view being that the proposal would reduce the PPE valuation audit work required which has become significant in previous financial years.
- Deferring the implementation of IFRS16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

4.8. The consultation lasted until to 3rd March 2022. The consultation responses were considered by the CIPFA Board at a meeting on 9th March 2022 and preliminary decisions were as follows:

- The Board decided not to progress any option to pause professional valuation of operational property, plant and equipment, or to apply indexation to paused balances of operational property, plant and equipment.
- The Board decided to pursue the option of deferring implementation in the Code of IFRS 16 Leases, subject to consideration and review of this approach by the Financial Reporting Advisory Board (FRAB). This deferral would be for a fixed period of two years.

4.9. The final outcome of these considerations is currently awaited and is not a foregone conclusion. FRAB examines all amendments to the Code with the aim of ensuring that they comply with GAAP[4], and that departures or modifications from GAAP due to public sector and spending controls contexts are fully

[3] IFRS – International Financial Reporting Standards – set of accounting rules that govern how transactions and events should be reported in financial statements
[4] GAAP – Generally Accepted Accounting Principles

explained and justified. Currently it is advised that those preparing the accounts should not suspend work on IFRS16 implementation in anticipation of a deferral.

5. Issues and Choices

5.1. The draft accounting policies for the Council for 2021/22 are shown in **appendix A** for approval.

5.2. These policies will form part of the Statement of Accounts for 2021/22 and will be subject to audit and as an outcome of the audit may need to be amended for the final audited accounts.

6. Implications (including financial implications)

6.1. Resources and Financial

- The financial impact of harmonising the accounting policies will not have a material impact on the financial outturn of the Council or the General Fund Balances.

6.2. Legal

- None Specific to this report.

6.3. Risk

- None Specific to this report.

6.4. Consultation

- None specific to this report.

6.5. Consideration by Scrutiny

- None specific to this report.

6.6. Climate Impact

- None specific to this report.

6.7. Community Impact

- None specific to this report.

7. Background Papers

7.1. Council Constitution.

7.2. CIPFA Emergency proposals for the update to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom.

North
Northamptonshire
Council

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North Northamptonshire Council – Draft Accounting Policies

The wording of the policies has been taken from the latest available NCC statement as their policies covered all areas, other than HRA, that are now covered by NNC. The wording has been expanded in some instances for narrative included in the former district councils' statements which did not appear in the NCC policies.

Policy
1. General Principles
1.1 General Principles
The Statement of Accounts summarises the Council's financial transactions for the 2021/22 financial year and its position at the 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2015 Regulations. As local authorities need to reflect statutory conditions, accounting standards are amended for specific statutory adjustments so that the Council's accounts present a true and fair view of the financial position and transactions of the authority. All accounting policies are disclosed where they are material. The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.
1.2 Qualitative Characteristics of the Financial Statements
1.2.1 Relevance The accounts have been prepared with the objective of providing information about the Council's financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions. **1.2.2 Reliability** The financial information is reliable as it has been prepared to reflect the reality or substance of the transaction, is free from deliberate or systematic bias, is free from material error and has been prudently prepared. **1.2.3 Understandability** These accounts are based on accounting concepts and terminology which require reasonable knowledge of accounting and local government. Every effort has been made to use plain language and where technical terms are unavoidable, they have been explained in the glossary contained within the accounts.

1.2.4 Materiality

The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted, provided that in aggregate they would not affect the interpretation of the accounts.

1.3 Underlying Assumptions

1.3.1 Accrual of Income and Expenditure

The financial statements are prepared on an accrual basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred, not as cash is received or paid. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

  An exception is made in respect of expenditure on utilities and telephones where expenditure has been taken four quarterly accounts has been taken as a proxy for actual expenditure in the year.

1.4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours and investments whose maturity date is three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.5 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.6 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. In such a situation a provision will be recognised in the financial statements.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.7 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.8 Provisions

Provisions are made where an event has taken place that gives the Council a present legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1.9 Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Where items of income and expenditure are material, their nature and amount is disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.10 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to protect against unexpected events. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year, to be recorded against the Net Cost of Services in the Comprehensive Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council tax for the expenditure.

Certain reserves are kept managing the accounting processes for non-current assets, financial instruments and retirement and employee benefits, and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

To appropriately present its financial performance and financial position, the Council draws a distinction between usable and unusable reserves. A usable reserve represents resources that the Council might use to support service delivery, although some reserves may have restrictions on their use depending upon legislative requirements.

Unusable reserves re not available to support service delivery. They arise from either statutory adjustment required to balance amounts chargeable to council tax or rents for the year, or accounting for gains or losses in accordance with accounting standards.

1.11 Government and Third-Party Capital Grants and Contributions

Whether paid on account, in arrears or by instalments, grants and other contributions are accounted for on an accrual basis and recognised as income when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as long-term liabilities (Capital Receipts in Advance). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement in the Taxation and Non-Specific Grant Income, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where grant has yet to be used to finance capital expenditure it is posted to the Capital Grants Unapplied Reserve. When it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.12 Revenue Grants and Contributions

Revenue grants and contributions are matched in the Comprehensive Income and Expenditure Statement to the service expenditure to which they relate. Revenue grants received in advance of entitlement or meeting of conditions are treated as creditors (receipt in advance) until such time as they can be justifiably recognised as income and credited to the Comprehensive Income and Expenditure Statement. Grants to cover general expenditure, such as the Revenue Support Grant, are credited to the Comprehensive Income and Expenditure Statement after Net Cost of Services. For the Public Health ring-fenced grant, from Department of Health and Social Care, unspent grant will be transferred to an earmarked reserve, with the funding to be utilised in line with grant conditions.

1.13 Employment Benefits

1.13.1 Benefits payable during employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. Where material, an accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

1.13.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. These are charged on an accrual’s basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises cost for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

1.13.3 Post-Employment Benefits

North Northamptonshire Council participates in three different pension schemes that meet the needs of employees in particular services. All the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers

This is an unfunded scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. In an unfunded defined benefit scheme, no assets are set aside, and the benefits are paid for by the employer or other pension sponsor as and when they are paid. It is classified as a 'single-employer defined benefit scheme' in which the assets and liabilities are not identifiable at individual employer level on a consistent and reasonable basis. However, the individual employer pays for the unfunded discretionary benefits awarded. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

The Northamptonshire Local Government Pension Scheme (LGPS) is administered by West Northamptonshire Council and is accounted for as a defined benefit scheme.

The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e.

an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of projected earnings for current employees).

The assets of the Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price.
- Unquoted securities – professional estimate.
- Unitised securities – current bid price.
- Property – market value.

The change in the net pension liability is analysed into service cost and re-measurement components.

The service cost element comprises:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.
- Net interest on the net defined benefit liability (i.e. the net interest expense for the authority) – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit liability at the beginning of the period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurements comprise:

- The return on plan assets – excluding amounts included in the net interest on the net defined benefit liability. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the LGPS Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.13.4 Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.14 Value Added Tax

The Comprehensive Income and Expenditure Statement excludes any amounts related to VAT, as most VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them. VAT is only included as an expense when it is not recoverable from HM Revenues and Customs.

1.15 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement and the Housing Revenue Account Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement and the Housing Revenue Account Income and Expenditure Account. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement and the housing Revenue Account Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance or the Housing Revenue Account balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The Council's Intangible Assets consist of purchased software licences and any directly attributable costs of preparing the software for its intended use. The useful economic life of recognised intangible assets is at least three years. All Intangible Assets are included at historic cost and written down on a straight-line basis over their economic lives from the year following acquisition. The useful economic lives are reviewed at the end of each reporting period and revised if necessary.

1.16 Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment. This includes Heritage Assets.

1.16.1 Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

1.16.2 Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment with a value over £10,000 is capitalised, on an accrual basis. Provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably, provided it yields benefits to the Council and the services that it provides exceed one financial year. This applies to either single items over £10,000 or to groups of similar items whose value collectively exceeds £10,000. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred. Expenditure below the £10,000 limit is charged to revenue.

Assets are recorded in the Balance Sheet using the following measurement bases:

- Land and Buildings and Surplus Assets - Existing Use Value
- Council Dwellings - Existing Use Value (Social Housing)
- Vehicles, plant and equipment, furniture, and equipment - lower of net current replacement cost or net realisable value in existing use.
- Infrastructure assets (i.e. roads, roundabouts and bridges) – depreciated historic cost.
- Community assets – depreciated historic cost.
- Assets Under Construction valued at historic cost
- Heritage Assets – rolling programme of revaluation for land and buildings, historic cost or the most recent insurance valuation for all other assets

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historic cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service).

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement
- The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.16.3 Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Expenditure and income relating to capital projects is accounted for on an accrual basis.

1.16.4 Depreciation

Depreciation has been calculated using a straight-line method (i.e. apportioned equally over each year of the life of the asset) for all assets. The estimated useful life of each property is determined by a qualified valuer. Land and assets not yet available for use (assets under construction) are not depreciated. Each component of property, plant and equipment that is significant in relation to the total cost of the asset is depreciated separately based on its estimated useful life.

Depreciation is charged to the service with a corresponding reduction in the value of the asset. The depreciation charge is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account. Residual values, useful lives and depreciation methods are reviewed at each financial year end.

Depreciation has been charged to the Housing Revenue Account (HRA) in accordance with proper practices and credited to the Major Repairs Reserve (MRR).

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged on their historical cost being transferred from the Revaluation Reserve to the Capital Adjustment Account

1.16.5 Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non - current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped continue to be classified as Surplus Assets until they are removed from the Balance Sheet.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government (capped to a maximum amount since April 2012 following Reinvigorating Right to Buy and One for One Replacement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written off value of disposals is not a charge against Council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.16.6 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the price that would be received to sell an asset in an orderly market between market participants at the measurement date under current market conditions. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.16.7 Charges to Revenue for Non - Current Assets

The Council's services revenue accounts, support services and trading accounts are debited with the following amounts to record the cost of holding non - current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be recovered
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance via the annual Minimum Revenue Provision (MRP) charge, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.16.8 Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. This may include expenditure on assets not belonging to the Council such as service user homes and foundation schools. Where the Council has determined to meet the cost of this expenditure from existing capital resources or borrowings, a transfer to the Capital Adjustment Account is made to reverse out the amount charged so there is no impact on the level of Council tax.

1.17 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the Property, Plant or Equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.17.1 The Council as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease)

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation, and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance via the annual Minimum Revenue Provision (MRP) charge, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant, or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a rent-free period at the commencement of the lease).

1.17.2 The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received)
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of non - current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.18 Heritage Assets

Heritage Assets are a distinct class of asset which are reported separately from property, plant and equipment and intangible assets. The Council holds these assets principally for future generations because of their contribution to knowledge, environment or culture. The Code requires authorities to recognise heritage assets where the authority has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining this information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Council's Balance Sheet. However, the Council makes appropriate disclosure in the accounts where heritage assets are not recognised on the Balance Sheet. Where valuations are made an appropriate method is adopted; this may include, for example, insurance valuations of museum collections and civic regalia

The Council reviews the carrying amounts of heritage assets carried at valuation on a yearly basis to ensure they remain current. Depreciation is not charged on heritage assets which have indefinite lives. However, an impairment review is carried out where there is physical deterioration or new doubts as to the authenticity of the Heritage Asset exist.

The collections are relatively static, and acquisitions or donations are fairly rare. Where they do occur, acquisitions are initially recognised at cost and donations are recognised based on insurance valuations.

The Art Collection is reported in the Balance Sheet at market value. Assets within this collection are deemed to have indeterminate lives and a high residual value and it is therefore not considered appropriate to charge depreciation.

Where heritage assets that have a doubtful provenance or are unsuitable for public display are disposed of, the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

1.19 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities, such as trade receivables and trade payables, and the most complex ones such as derivatives and embedded derivatives.

1.19.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan, and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.19.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.
There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those where contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

1.19.3 Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, if the authority makes any loans to voluntary organisations at less rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.19.4 Expected Credit Loss Model

The Council recognises expected credit losses on all its financial assets held at amortised cost either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

1.19.5 Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.19.6 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.19.7 Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available for Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

1.20 Inventories and Work in Progress

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. Work in progress is recognised at cost, and held in the Balance Sheet until the work has been completed.

1.21 Private Finance Initiative and Similar Contracts

The Code requires these contracts to be accounted for in a manner consistent with the adoption of International Financial Reporting Interpretations Committee (IFRIC) 12 Service Concession Arrangements as contained in the Government's Financial Reporting Manual (FreM). The Code has determined that the Council shall account for PFI schemes where the Council controls the use of the Tangible Fixed Assets and the residual interest in the asset at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The Council therefore recognises the PFI assets as Tangible Fixed Assets together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- Payment for the value of services received
- Payment for the PFI asset, including finance costs
- Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

Services Received

The value of services received in the year is recorded under the relevant expenditure headings within 'operating expenses.

PFI Asset

The PFI assets are recognised as Tangible Fixed Assets when they come into use. The assets are measured at the lower of net current replacement cost or net realisable value in existing use.

PFI Liability

A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IFRIC12.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period and is included in Interest Payable and similar charges within the Comprehensive Income and Expenditure Statement.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. In accordance with IFRIC12, this amount is not included in the minimum lease payments but is instead treated as contingent rent and is expensed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is included in Interest Payable and similar charges within the Comprehensive Income and Expenditure Statement.

Lifecycle Replacement

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Council's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at the lower of net current replacement cost or net realisable value in existing use.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a reserve is recognised respectively.

Where the value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided.

Assets Contributed by the Council to the Operator for use in the Scheme

Assets contributed for use in the scheme continue to be recognised as Tangible Fixed Assets.

PFI Credits

Government Grants received for PFI schemes in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure and will be drawn down as required.

1.22 Events After the Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.23 Foreign Currency Transactions

Payments made in any other currency other than sterling are translated at the rate applicable on that date.

1.24 Interests in Companies and Other Entities

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures.

The Council is involved with a number of companies and has concluded that the requirement to produce Group Accounts applies in relation to its interest in Northamptonshire Trading Limited and Olympus Care Services Limited in the Council's single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost**.**

In 2011/12 the former Borough Council of Wellingborough created a joint venture company, Wellingborough Norse Limited, in connection with Norse Commercial Services. The council holds a 20% in the company. Wellingborough Bereavement Services Limited, trading as Nene Valley Crematorium, is a wholly owned subsidiary of the Council. Two company directors are officers and members of the Council.

Northamptonshire Children's Trust was established in November 2020 and works with North Northamptonshire Council, West Northamptonshire Council, and other key partner organisations to provide children's services across Northamptonshire.

The Council reviews annually the extent to which other entities, over which the Council has a controlling interest, need to be consolidated into group accounts. Disclosures in respect of these interests and the level of transactions are shown as a note to the accounts.

1.24.1 Schools

In accordance with the Code of Practice on Local Authority Accounting the Council has assessed the legal framework underlying each school. The Council controls the non-current assets of community schools and foundation schools, vested with the governing body as a Trustee, as future economic benefits associated with the assets will flow to the Council and therefore the land and buildings of those schools are shown on the Council's balance sheet. The land and buildings of voluntary aided, voluntary controlled and foundation schools, where the trust is not the governing body are owned and controlled by the trustees of the schools or the foundation body and are therefore not shown on the balance sheet of the Council.

Any schools held on the balance sheet, which are transferred to academy status form part of the loss on disposal of non-current assets. This includes schools managed under a PFI contract.

Capital expenditure on schools shown on the Council's balance sheet is added to the value of those schools. Capital expenditure on schools not on the Council's balance sheet is treated as REFCUS (Revenue Expenditure Funded from Capital under Statute) expenditure and written off each year to the Comprehensive Income and Expenditure Statement as part of the Children's Services line. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

All revenue income, expenditure, assets and liabilities of maintained schools, after the removal of transactions between schools and the Council, are included in the Council's single entity accounts.

Individual schools' balances are included in the balance sheet of the Council as any unspent delegated schools budget remains the property of the Council although these can only be spent by the school.

The Dedicated Schools Grant (DSG) is allocated between the central council budgets and budgets allocated to individual schools (delegated school budgets). Expenditure from central council budgets and delegated schools' budgets is charged to the Comprehensive Income and Expenditure Statement as part of the Children's Services line.

The new accounting regulations introduced relating to the Dedicated Schools Grant deficit balances are applicable to local authority accounting periods beginning on 1 April 2020. The financial statement will continue to be produced under IFRS with the DSG being accounted for in the normal way (through the CIES). A deficit must be carried forward to funded from future DSG income. An accounting adjustment is then made via the MIRS to move any DSG deficit balances on a time limited basis to an unusable reserve established for that purpose.

1.24.2 Better Care Fund

The Council recognises expenditure and income relating to its duties about the Better Care Fund (BCF) created in partnership with local health Clinical Commissioning Groups (CCGs). The fund's governance arrangements are outlined in the Section 75 Agreement between the Council and the local CCGs and involve the strategic oversight by the Health and Wellbeing Board. After reviewing the substance of the agreement between the parties, against the accounting standards, it is appropriate for each entity governed by the section 75 agreement to account for expenditure they commission, with the other party's expenditure disclosed in a note to the accounts.

1.25 Joint Arrangements

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the council and other ventures, with the assets being used to obtain benefits for the ventures. The joint venture does not involve the establishment of a separate entity. The council does not have any jointly controlled assets, however if it did the council would only account for its share of the jointly controlled assets, the liabilities, and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Jointly controlled operations are activities undertaken by the council in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs. The Comprehensive Income and Expenditure Statement is debited with the expenditure it incurs and credited with the share of income it earns from the activity of the operation.

1.26 Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus assets and investment properties, and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, if the market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

1.27 Government Grants and Contributions

Government grants and contributions are not recognised until there is reasonable assurance that the Council will comply with the conditions attached to them and the grant or contribution will be received. Grants and contributions are credited to the Comprehensive Income and Expenditure Statement except where the grant or contribution has a condition that has not been met. Conditions are stipulations that must be satisfied, or the grant or contribution must be returned. Monies advanced as grants and contributions for which conditions are not yet met are carried in the Balance Sheet as receipts in advance.

a. **Revenue Grants and Contributions**
   Revenue grants and contributions are credited to the relevant service line for specific grants and the Taxation and Non-Specific Grant Income line for grants that cover general expenditure (e.g. New Homes Bonus Grant) except where the grant or contribution has a condition that has not been met. When the specific grant has been recognised but the expenditure relating to it has not been incurred the Council has elected to make a contribution equivalent to the unspent amount of grant to an earmarked reserve. This reserve will be released in future financial years when the expenditure to which the grant relates is incurred.
b. **Capital Grants and Contributions**

Capital grants and contributions are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement except where the grant or contribution has a condition that has not been met. The amount of the grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Reserve via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account when they are used to fund capital expenditure.

c. **Grants and Contributions attributable to Revenue Expenditure Funded from Capital under Statute (REFCUS).**
These grants and contributions are credited to the relevant service line in the Comprehensive Income and Expenditure Statement except where the grant or contribution has a condition that has not been met. The amount of the grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Reserve via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account when they are used to fund expenditure.

1.28 Council Tax and Non-Domestic Rates

Billing authorities are required by statute to maintain a separate fund (The Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The fund's key features relevant to the accounting for Council Tax and NNDR in the core financial statements are:

- its capacity as a billing authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself

- While the Council Tax and NNDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund or paid out from the Collection Fund to the major preceptors and Central Government. The amount credited to the General Fund under statute is the Council's demand on the fund for that year, plus (less) the Council's share of any surplus (deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Comprehensive Income and Expenditure Statement

The Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. In addition, that part of the NNDR retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive Income and Expenditure Statement, as are any costs added to NNDR in respect of recovery action.

Balance Sheet

Since the collection of Council Tax and NNDR are in substance agency arrangements, any year end balances relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments are apportioned between the major preceptors and the Council by the creation of a debtor /creditor relationship. Similarly, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will therefore be a debtor / creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

Cash Flow Statement

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows from only its own share of the Council Tax and NNDR collected in the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition, that part of NNDR retained as the cost of collection allowance under regulation appears in the Council's Cash Flow Statement. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of previous year's surplus or deficit on the Collection Fund, is included as a net increase / decrease in cash and cash equivalents.

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North Northamptonshire Council

NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

5th May 2022

Report Title	**Update on outstanding issues - Corby Borough Council**
Report Author	**Claire Edwards – Assistant Director of Finance & Accountancy** **Claire.Edwards@northnorthants.gov.uk**

Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME	**N/a**	**N/a**

1. Purpose of Report

1.1. The provide an update on the outstanding issues relating to the audit of the Statement of Accounts for the former Borough Council in Corby.

2. Executive Summary

2.1. This report requires the Committee to note any updates on the outstanding issues for the 2019/20 audit of the draft Statement of Accounts in relation to Corby Borough Council for 2019/20.

3. Recommendations

3.1. It is recommended that the Committee.

a) Note the information outlined in this report

3.2. Reason for Recommendations –

- For the Committee to exercise its duties and responsibilities within its Terms of Reference.

4. Report Background

4.1. The accounts for Corby Borough Council remain in draft format as there are several outstanding matters that are to be concluded, these were set out in the

Provisional Audit Results Report prepared by Ernst and Young (EY) and reported to the committee in January 2022.

5. Issues and Choices

5.1. The issues outstanding are summarised below together with an update on progress.

Outstanding Issue	EY comments provided in January	Update on progress	Comments
Property Valuations	Specialist is yet to conclude on a sample of property Valuations	Queries from specialist provided to officers – responses have been provided to EY	Awaiting discussion between EY and Valuer to be arranged to discuss responses
Value for Money reporting and modifications	To be confirmed subject to conclusion of items outstanding as above	Updated Annual Governance Statement to include significant audit risk in relation to bank reconciliation as discussed	Provide updated Statement of Accounts to EY once the adjustments to the valuations queries have been concluded

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. The Council's External Auditors set out the risks in their Provisional Audit Results Report to the committee in January.

6.4. Consultation

6.4.1. None specific to this report.

6.5. Consideration by Scrutiny

6.5.1. Not specific to this report.

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.

Corby Borough Council Audit Results Report - Item 4 - Appendix A - 20 CBC - Audit Results Report.pdf (moderngov.co.uk)

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NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

5th May 2022

Report Title	**Update on outstanding issues - East Northants District Council**
Report Author	**Claire Edwards – Assistant Director of Finance & Accountancy Claire.Edwards@northnorthants.gov.uk**

Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME	**N/a**	**N/a**

1. Purpose of Report

1.1. The provide an update on the outstanding issues relating to the audit of the Statement of Accounts for the former District Council in East Northamptonshire.

2. Executive Summary

2.1. This report requires the Committee to note any updates on the outstanding issues for the 2019/20 audit of the draft Statement of Accounts in relation to East Northants District Council for 2019/20.

3. Recommendations

3.1. It is recommended that the Committee.

a) Note the information outlined in this report

3.2. Reason for Recommendations –

- For the Committee to exercise its duties and responsibilities within its Terms of Reference.

4. Report Background

4.1. The accounts for East Northants District Council remain in draft format as there are several outstanding matters that are to be concluded, these were set out in the Provisional Audit Results Report prepared by Ernst and Young (EY) and reported to the committee in January 2022.

5. Issues and Choices

5.1. The issues outstanding are summarised below together with an update on progress:

Outstanding Issue	EY comments provided in January	Update on progress	Comments
Property Valuations	Specialist is yet to conclude on a sample of property Valuations	Queries from specialist provided to officers – responses have been provided to EY	Awaiting discussion between EY and Valuer to be arranged to discuss responses
Contingent Liability	Conclusion on Monks case and accounting treatment	Accounts updated for treatment of financial settlement in the 2019/20 accounts	Awaiting conclusion on Monks legal opinion.
Bank Reconciliation	Payments identified that need further investigation	Investigation report provided in relation to fraudulent payments	Follow on response to third party confirmation still outstanding
Value for Money reporting and modifications	To be confirmed subject to conclusion of items outstanding as above	Updated AGS to include significant audit risk in relation to bank reconciliation as discussed	Provide updated Statement of Accounts to EY once the adjustments to the valuations queries have been concluded

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. The Council's External Auditors set out the risks in their Provisional Audit Results Report in the committee in January.

6.4. Consultation

6.4.1. None specific to this report.

6.5. Consideration by Scrutiny

6.5.1. Not specific to this report.

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.

East Northants District Council Audit Results Report - Item 6 - Appendix A - 20 ENC - Audit Results Report.pdf (moderngov.co.uk)

NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

5th May 2022

Report Title	**Internal Audit progress report**	
Report Author	**Rachel Ashley-Caunt, Chief Internal Auditor**	
Contributors/Checkers/Approvers		
North MO		
North S151		
Other Director/SME		

List of Appendices

Appendix 1: Internal Audit progress report – April 2022

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 plan of work is subject to ongoing review and prioritisation to ensure it focuses on the Council's key risks. Good progress is being made on progressing planned audit work, with a focus on key risk areas. Since the last meeting, six audit reports have been finalised and the key findings are summarised in Appendix 1.

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 concluding work from the audit plan for 2021/22 and have commenced work on assignments from the 2022/23 audit plan. The key findings of a further six audits completed during the year to date are provided within Appendix 1 for the committee's information.

4.2 A copy of the planned schedule of work for 2021/22 and the status of each assignment is provided.

4.3 Included within the progress report is an overview of the implementation of agreed management actions.

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.

Appendix 1

North Northamptonshire Council

Internal Audit Progress Report

April 2022

1. Introduction

The Public Sector Internal Audit Standards (the Standards) require the Audit and Governance Committee to oversee 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

The Internal Audit team has been working on the delivery of the planned audit assignments for 2021/22.

A full copy of the current audit plan is provided as Table 3, on pages 11 to 16 of this report. At the time of reporting, in April 2022, fieldwork is completed on 90% of audit assignments from the 2021/22 audit plan and reports have been produced in relation to 80% of the audits. The outcomes of all reports which are not finalised as at the time of reporting will be reflected in the Annual Internal Audit Report at the next meeting of the Audit and Governance Committee.

It should be noted that this delivery has been achieved despite the pressures on resourcing and impact of the pandemic in 2021/22. There has also been further pressure on resourcing during recent months to support the disaggregation of the Internal Audit service and all activity needed to achieve a start date of 1st April 2022 for the in house service.

3. Key findings

Since the March 2022 committee meeting, the Internal Audit service has finalised reports in respect of a further nine assignments from the 2021/22 Internal Audit Plan. The key findings arising from those audits are summarised as follows:

Spreadsheet interface payment files (SIPFs)

SIPFs are manually created spreadsheet files populated by a service / department with payment activity which are then imported into ERP Gold by Accounts Payable for processing. Between April and mid-November 2021, 183 spreadsheet interface payments had been processed (covering 16,857 transactions) with a total value of over £38 million.

Based on the audit findings, the following areas of good practice were noted:

- The control environments in place for administering purchases / payments in services and departments that use SIPFs were generally well designed with a clear audit trail in place to support such activity.
- In terms of processing SIPFs, there is comprehensive and easy to follow guidance in place to support the use of SIPFs. The template spreadsheet used to administer such activity has built in functionality to ensure that data submitted has met defined validation checks, transactions cannot be added once the SIPF has been submitted for approval and safeguards to avoid duplicate files being processed in error.
- A master record is maintained of all SIPFs received and processed by Accounts Payable including a reconciliation between the number and value of records in the SIPF and those created in ERP Gold.

It was noted that decisions to allow areas to use SIPFs were in most cases made by the County Council and this has not been reviewed since vesting day. Internal Audit's assessment of service / departments using this mechanism found, in several cases, there was no clear justification for why some areas were using a SIPF instead of ERP Gold and how all approval levels would be manually set up to align with the Scheme of Delegation.

In comparison with ERP Gold where the controls are automated and built into the design of the system, the control environment for SIPF is primarily based on manual controls. It was also noted that there were inconsistencies in the level of checks undertaken by services on the completeness and accuracy of data included in the SIPFs.

It has been agreed that a Task and Finish Group will be established to take forward the recommendations arising from the audit and ensure consistent and appropriate usage of SIPFs.

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

Internal Audit Assurance Opinion	
Control Environment	**Satisfactory**
Compliance	**Good**
Organisational Impact	**Minor**

Adult safeguarding referrals

The Council and the local Safeguarding Adults Board promote awareness of adult safeguarding and how to raise safeguarding concerns. Any individual, including practitioners, relatives and members of the public can make a safeguarding referral to the Council to raise any concerns about an individual considered to be at risk. The Council provides an online form which is automatically received by the Customer Services Team, who then send the referral on to the relevant social care team. The referral should be logged on the social care system, Eclipse, with the creation of a safeguarding concern worklist and enquiries made to inform a decision on whether a s42 enquiry, or other action, is required. A s42 enquiry, if appropriate, should then follow a prescribed process with outcomes reported as to the management of any identified risks. The timely and consistent handling of these referrals is key in ensuring that the Council is fulfilling its duties and protecting individuals.

During the 2021/22 year to date, there was an average of 248 safeguarding referrals received per month. A safeguarding team has been established within the Council's structure but this team does not currently have accountability and oversight of the handling of all such referrals – only those relating to provider services/medical institutions. The initial assessment and, effectively, triage of other referrals received is conducted by officers in the various social care teams (including community hubs, Learning Disability teams, inclusion teams). There is currently some inconsistency in the practices being applied across these teams, with areas of non-compliance on expected controls noted in audit testing on referrals handled outside of the safeguarding team. In sample testing, 26% of referrals had not been logged as safeguarding concerns on a worklist, in line with expected practice. This stage in the process results in a documented decision as to whether any further action is required, including a s42 enquiry, and the basis for this should be clearly evidenced on the concerns worklist and informed by evidenced, proportionate fact finding. Without a completed worklist, there is a failure to consistently log and capture all required details and informed decision making. Furthermore, these referrals will not be captured in data collated on the number of safeguarding concerns and the Council's performance in handling these.

Where concern worklists had been suitably completed, it was evident that those safeguarding referrals had generally been handled in a timely manner – with an average completion of fact finding enquiries and screening outcome achieved within 10 calendar days. The longest time that a concern worklist was open within the sample was 48 days and reasons for delays were clearly evidenced.

It is noted that in the sample of cases which were referred to a s42 enquiry, 100% had been suitably recorded, with associated outcomes, on the system.

There is currently a gap in controls in that there is no audit regime operating over the adult safeguarding referral process. Without a formal audit regime, there is a lack of assurance that can be given over the quality and basis for decisions reached by officers in assessing referrals against thresholds, and no means of consistently monitoring compliance with expected controls. The mechanism for subjecting decisions reached by officers on concerns worklists for independent, senior approval is not automated within the social care system and nor is there an audit trail to evidence independent reviews. The work of Principal officers is not subject to routine peer/independent review, with the exception of spot checks conducted within some areas, and this requires review and formalisation.

A number of performance indicators relating to the handling of safeguarding referrals are included in the dashboard for Adult Social Care and reported monthly. Performance measures do not, however, currently focus on outcomes and should be subject to review to ensure that these provide an informative overview of the service delivery, areas for improvement and quality and timeliness of support.

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

Internal Audit Assurance Opinion	
Control Environment	● **Satisfactory**
Compliance	● **Satisfactory**
Organisational Impact	● **Moderate**

Adult safeguarding - Deprivation of Liberty Safeguards (DoLS)

Deprivation of Liberty Safeguards (DoLS) are part of the Mental Capacity Act 2005. The safeguards aim to make sure that people in care homes and hospitals are looked after in a way that does not inappropriately restrict their freedom. During 2021/22, NNC hosted this service for West Northamptonshire Council in addition to covering the North Northamptonshire region. This was flagged by management as a risk area in relation to adult safeguarding which would benefit from audit coverage to address areas for improvement. This is an area where there are pressures and backlogs nationally, reflected in statistics reported by the NHS – with the proportion of standard applications completed across the United Kingdom within the statutory timeframe of 21 days at just 24% in 2020/21.

At the time of audit, there was a backlog of 1,695 cases within North Northamptonshire requiring DoLS assessments. The Council received an average of approximately 365 new referrals per month during the year to date, covering both North and West Northamptonshire.

Work has been underway internally in recent months to benchmark DoLS processes against those at comparable authorities with a view to improving performance. There was acknowledgement that quality was good but there was scope for greater efficiency. This work requires development to inform design of new process maps and procedures for the service and this should incorporate the clear roles and accountabilities of those involved.

There are resource pressures affecting a number of the key stages in the assessment process. The assessments must be completed by trained Best Interest Assessors (BIAs) of which the Council currently has 2.6 substantive FTEs, against an establishment of 6.5 FTEs, and limited access to non-substantive BIAs in other service areas. Further, it is noted that the substantive FTEs are also Approved Mental Health Professionals (AMHPs) and work associated with the AMHP role is prioritised over DoLS assessments. There have also been delays in obtaining the approval of s12 clinicians, with action taken to seek additional resource for this stage via the Council's agency worker framework. Audit testing highlighted that earlier in 2021 a significant source of delay had been a lack of signatories, who must sign off the assessment upon completion by the BIA. Cases were noted where the assessment had been completed urgently by the s12 clinician and BIA within ten days, but there had then been a delay of over nine months in allocating the case to a signatory for their sign off. Pressures earlier in the process, at the BIA assessor stage, during the latter half of the year appear to have since relieved the backlogs at the signatory stage.

The current backlog presents a high risk in failing to ensure safeguarding of the individuals involved and compliance with legal requirements. Furthermore, the audit has highlighted increased risks due to manual workarounds being applied outside of the social care system. This has arisen due to repeated, duplicate referrals being made by care and hospital settings in relation to the same individuals. The system does not allow more than one 'worklist' to be opened in relation to any one individual and, as such, all subsequent referrals are being recorded via a manual spreadsheet which is emailed to the service area.

The process is currently reliant on a number of BIAs and signatories who hold other roles and responsibilities across the Council. There is currently a lack of clear expectations, service standards and accountability in relation to the key roles in the DoLS assessment process and there is a need to formalise these going forward, to ensure an efficient, consistent process is adhered to by all involved and any non-compliance with expected standards is highlighted.

Management had unsuccessfully sought additional funding from Covid Contain Outbreak Management Funds. A business case to apply market supplements to the BIA roles was due to be reviewed at the time of audit. An action plan is required to set out how the backlog will be cleared and to instigate a compliant, suitably resourced framework.

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

Internal Audit Assurance Opinion	
Control Environment	🔴 **Limited**
Compliance	🟡 **Satisfactory**
Organisational Impact	🔴 **Major**

Housing Rents

Rent from social housing in the geographic locations formerly administered by two of the four legacy Councils, Kettering and Corby, is a key income stream for the recently established North Northamptonshire Council.

As at 31st March 2021, the former Kettering Borough Council and Corby Borough Council owned 3603 and 4673 social dwellings respectively, all of which was transferred to North Northamptonshire Council on 1st April 2021. The 2021/22 rent income budget for the Kettering area is £15,066k and for Corby is £19,212k. The level of rent arrears at the end of February 2022 is as follows:

	Kettering	Corby*
Current tenant arrears	£599,670	£1,170,787
Former tenant arrears	£629,892	£668,055

*Corby arrears figures include court costs & recharges

In overall terms, the audit concluded that there are robust arrangements across the two localities to set accurate and timely rents and to post income received to the correct accounts. The Covid-19 pandemic has however had a significant impact on rent arrear levels.

Due to staff absences, it was not possible for Internal Audit to conduct detailed testing in relation to three control areas for Kettering (authorisation of arrears write offs, housing staff annual declarations and reconciliation of housing properties to the fixed asset register) and a formal recommendation has been made, and will be followed up, in relation to seeking these assurances. It was also noted that in house audits of arrears recovery and reconciliations of the rent system to the general ledger had not been taking place for Kettering properties at the time of audit.

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

Internal Audit Assurance Opinion	
Control Environment	**Satisfactory**
Compliance	**Satisfactory**
Organisational Impact	**Moderate**

Appointeeships and Deputyships

The Council's Client Fund Team offers an Appointeeship/Deputyship service for clients who lack the mental capacity to manage their own financial affairs and have no one else who is willing or able to undertake this role for them. At the time of the audit the Client Funds Team were managing 216 appointeeships and 49 deputyships. In the financial year to early March 2022, purchases and payments to the value of £521k (excluding direct debits / standing orders) had been made on behalf of clients.

Key aspects of the control framework covering the application process and external reporting requirements are overseen by the organisations (i.e. DWP, Court of Protection) responsible for overseeing appointeeships and deputyships.

Based on the audit findings, the assurance given over the system design is Good. The Council has systems in place to administer appointeeships / deputyships including:

- Training and procedural guidance in place to support officers involved in the administration of appointeeships and deputyships.
- Financial records for each client are maintained on the electronic system, detailing all income and expenditure activities.
- Appropriate checks are in place to oversee purchases made and to ensure client records are accurate and complete.

The level of assurance given to compliance is Satisfactory, as the review found the following:

- A small number of instances where regular payments were being made to care homes for a client's personal allowances which did not appear to be needed given that the care homes were already holding balances of over £1k for the client; and
- For all purchases over £1k, a best interest form should be completed. Testing identified two purchases over £1k and found that in one case, the purchase was processed on the receipt of an email rather than through the completion of a best interface form. For both purchases it was also noted that whilst the requests identified the need for the purchase, no evidence was provided that the relevant Client Fund Officer had approved the purchase.

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

Internal Audit Assurance Opinion	
Control Environment	**Good**
Compliance	**Satisfactory**
Organisational Impact	**Minor**

Taxi Licensing

Effective taxi and private hire vehicles licensing is vital to developing and maintaining strong and safe communities. Such vehicles are regularly used to transport children to school and are heavily relied upon by elderly and disabled users. It is therefore critical that effective arrangements are in place to ensure drivers meet expected standards. As part of the transition to the unitary Council, a decision was taken not to change existing arrangements for taxi licensing. As a result, taxi licensing is currently administered by four teams whose responsibilities are aligned to those in place in the legacy district / borough Councils.

The Council will be implementing a new harmonised Council Hackney Carriage and Private Hire Policy in 2022/23. In the meantime, it was agreed that a targeted review would be undertaken by Internal Audit, checking the effectiveness of operational arrangements in place for administering new and renewal applications for taxi driving licences. The objective of this review was to provide assurance that effective arrangements are in place to ensure only 'fit and proper persons' are licensed as drivers and focused on testing of 40 new / renewal applications.

The assurance given over the system design for the new / renewal application process is Good. Whilst different guidance is in place across the four legacy Council areas (which is in the process of being standardised through the implementation of the North Northamptonshire Council Hackney Carriage and Private Hire Policy), the assurance opinion reflects that current guidance to support the application process, as well as the application forms, clearly identify the key checks that are undertaken and the information that must be provided for a new / renewal application.

Overall, testing highlighted that evidence was found to support checks carried out in 99% (i.e. 198 out of 200 checks) of cases. It should be noted that for the checks which could not be evidenced, Internal Audit could not determine whether the check had not taken place or whether the lack of evidence was due to gaps in record keeping.

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

Internal Audit Assurance Opinion	
Control Environment	**Good**
Compliance	**Good**
Organisational Impact	**Minor**

HR and Health & Safety – home working

Over the last year, the majority of the Council's office-based staff have continued to work from home – either full or part time. This has enabled service delivery to continue throughout the various stages of national restrictions and has, in a number of ways, resulted in better use of technology and new ways of working. It is key, however, that the Council continues to exercise its duties under the Health and Safety at Work Act.

It is evident that the Council has taken a number of pro-active measures to support staff during this time and new processes and guidance have been developed in response to changing risks. Guidance from the Health and Safety Executive (HSE) in relation to home working focuses on Display Screen Equipment (DSE) assessments, managing stress/mental health and the need to include home working in risk assessments. The Council has taken steps to provide support to managers and staff in relation to all of these areas and new tools are currently being trialled to further embed a strong control framework and accountability for all risk assessments going forward. This includes a comprehensive self-audit tool which will enable Director oversight of risk assessments and any outstanding actions.

Various online training modules have been made available to staff, including specific sessions on DSE assessments and various forms of support with mental health and wellbeing. A means for tracking completion of training is yet to be fully established and new systems due to be rolled out should assist with this. The DSE training module is mandatory for all DSE users and links to the online assessment form. A clear procedure is documented and applied to managing the assessments and their outcomes, with line managers responsible for ensuring all actions are resolved satisfactorily. Monitoring of completion of the module by all DSE users must be picked up through the new self-audit tool.

A specific 'DSE Self-Assessment for exceptional Homeworking Periods (Covid-19)' and an 'Individual Risk Assessment Template for Covid-19', which was targeted at assessing risks posed to any member of staff identified as 'high risk', were made readily available on the Council's intranet pages in 2021.

The Health, Safety and Wellbeing team are currently engaging a working group, with employee representatives from various directorates, to prepare a Wellbeing Plan. This is intended to complement and inform the Future Ways of Working Strategy and People Plan. Wider staff feedback is sought via the Health, Safety and Wellbeing team and will be formalised in further staff surveys. The responses to the 2021/22 staff survey included elements relating to health, safety and wellbeing whilst home working and responses are being reviewed, with support from the working group.

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

Internal Audit Assurance Opinion	
Control Environment	**Good**
Compliance	**Good**
Organisational Impact	**Minor**

Partnership governance framework

Working in partnership can bring a wide range of benefits, but also produces particular risks and governance issues. It is therefore important that significant partnerships are identified, their purpose is clear, the costs and benefits of working in that way are understood, and there is assurance that partnerships' governance supports their operation - particularly in key areas such as making decisions, managing performance and accountability.

It is noted that a partnerships register is yet to be collated and work on reviewing the governance of the Council's partnerships remains in development stages. As such, this review focused upon gathering assurances over the direction of travel and the draft partnership governance framework ahead of implementation.

The Council's draft Partnership Governance Framework and Guidance document was reviewed by Internal Audit by benchmarking it against similar documents from three other local authorities. This exercise identified some further areas that could be considered for inclusion, or which could be expanded upon, in the Council's existing document. Areas for consideration include:

- Including coverage on shared services;
- Including reference to the need to consider insurance and indemnity arrangements when setting up partnerships; and
- Providing definitions for different types of partnerships.

This assignment was advisory in nature and an assurance opinion is not therefore applicable in this instance.

Customer Services

Customer Services is often the main point of contact that North Northamptonshire residents have with the Council when they make enquiries about services they need to access, or problems that need resolving. As such, the efficiency and effectiveness of Customer Services is seen as critical in fostering good relationships with residents and ensuring that the Council meets the needs of the local population.

Customer Services operates as part of the Transformation Directorate and is managed by the Assistant Director of Customer Services, who in turn reports to the Director of Transformation. There are currently five geographically separate teams in Customer Services, each operating different IT systems; with one in each of the sovereign Borough and District Councils and one at Angel Square that takes phone-calls for customers in relation to ex-County Council services that relate to the North Northants area. There is currently no single telephony system, although calls can be routed automatically from the Council's main 0300 number to each of the teams, but system constraints mean that each site is unable to answer another site's calls at present.

Four out of five sites currently have a Customer Relationship Management System (CRM); Wellingborough does not have a CRM. The depth and scope of enquiries dealt with by Customer Services varies considerably between the five teams, so that at present the Council does not have a single integrated function. As 2022 progresses, transformation of the service to move towards a single integrated team will start as projects to procure a single CRM system and single telephony system progress. It is planned that these will be live by the end of the 2022-23 financial year. At the same time a review of the service structure will take place to bring the current five physically separate teams into one integrated team that will be able to seamlessly provide first point of contact for a range of Council services.

In overall terms, the audit concluded that the Council has functioning Customer Services arrangements in place across the localities covered by the previous sovereign Councils, but these are not yet integrated, which means there is a lack of consistency on the arrangements in place to serve the public. The audit also noted some anomalies in the collection and presentation of statistics on contacts made by customers, which could impact on the overall monitoring of performance targets. Staff resourcing issues have been experienced, initially in Corby but more recently at Kettering, that are likely to have had an adverse impact on customer service performance.

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

Internal Audit Assurance Opinion	
Control Environment	**Satisfactory**
Compliance	**Satisfactory**
Organisational Impact	**Minor**

In addition to the planned audit assignments, the Internal Audit team have also been working on grant verification work in relation to a number of grants received by the Council in 2020/21 and 2021/22.

4. Implementation of recommended actions

Where any weaknesses or opportunities for improvement are identified by audit testing, recommendations are made and an action plan agreed with management. These actions are subject to agreed timeframes and owners and implementation is followed up by Internal Audit on a monthly basis.

Since the last Audit and Governance committee meeting, 14 open actions have been confirmed as implemented – an overview is provided in Table 4 of this report. There are currently 17 recommendations which are overdue for implementation. There are currently no actions of 'High' priority which are over three months overdue.

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.			Reported at Sept 21 meeting
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 and coverage	Q1 - 4							Ongoing throughout financial year			
COVID-19 Restart grants	Q2							Grant certification provided to central government			
Financial Management Code	Q2										
Transformation	Q4										

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Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
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**	Reported at Sept 21 meeting
Bank reconciliations	Q1							**Good**	**Satisfactory**	**Moderate**	Reported at Sept 21 meeting
General ledger	Q1							**Satisfactory**	**N/A**	**Minor**	Reported at Nov 21 meeting
Government Procurement Cards (GPCs)	Q1							**Satisfactory**	**N/A**	**Minor**	Reported at Sept 21 meeting
Accounts payable	Q1							**Good**	**Good**	**Minor**	Reported at Nov 21 meeting
Manual interface payments	Q3							**Satisfactory**	**Good**	**Minor**	See section 3
Cashflow from sundry income	Q1							**Good**	**Good**	**Minor**	Reported at Jan 22 meeting
Debt recovery	Q1							**Satisfactory**	**Satisfactory**	**Minor**	Reported at Jan 22 meeting

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Payroll	Q1							**Good**	**Good**	**Minor**	Reported at Jan 22 meeting
Treasury management	Q1							**Good**	N/A	**Minor**	Reported at Nov 21 meeting
IT financial controls	Q1							**Good**	**Good**	**Minor**	Reported at Jan 22 meeting
Financial decision making	Q1							**Good**	N/A	**Minor**	Reported at Nov 21 meeting
Council tax	Q2							**Good**	**Good**	**Minor**	Reported at March 22 meeting
Housing benefits	Q2							**Satisfactory**	**Good**	**Minor**	Reported at March 22 meeting
Legacy debts	Q2							**Satisfactory**	**Satisfactory**	**Minor**	Reported at Jan 22 meeting
Business rates	Q4										

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Adults, Communities and Wellbeing Services Priorities and Risks											
Adult Safeguarding– Safeguarding referrals	Q3							**Satisfactory**	**Satisfactory**	**Moderate**	See section 3
Adult Safeguarding– DoLS	Q3							**Limited**	**Satisfactory**	**Major**	See section 3
Financial assessments	Q3							**Good**	**Satisfactory**	**Minor**	Reported at Mar 22 meeting
Housing allocations	Q2							**Good**	**Satisfactory**	**Minor**	Reported at Jan 22 meeting
Housing rents	Q3/4							**Satisfactory**	**Satisfactory**	**Moderate**	See section 3
Landlord Health and Safety	Q3/4										
Homelessness and temporary accommodation	Q3/4										
Appointeeships and Deputyships	Q3/4							**Good**	**Satisfactory**	**Minor**	See section 3
Adult social care	Q4										

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
Place & Economy Services Priorities and Risks											
S106 monitoring	Q2							**Limited**	**Limited**	**Moderate**	Reported at Jan 22 meeting
Asset / property management	Q2										
Parking income	Q2							**Satisfactory**	**Satisfactory**	**Minor**	Reported at Jan 22 meeting
Taxi licensing	Q3/4							**Good**	**Good**	**Minor**	See section 3
Procurement and contract management	Q3/4										
Children's services											
Schools thematic review / support	Q3/4										Ongoing into 2022/23 – with Finance and Schools forum
Children's Trust commissioning	Q3/4										
Home to School transport	Q4										Shared service audit
Corporate and cross cutting reviews											
Procurement compliance	Q3/4										

Assignment	Initial timing planned	Not started	Planning	Fieldwork underway	Fieldwork complete	Draft report	Final report / complete	Control Environment	Compliance	Org impact	Comments
ICT – Access controls	Q2										Delays in obtaining evidence
ICT – Cyber security	Q2										Delays in obtaining evidence
ICT – Disaster recovery	Q2										Shared service audit
Eclipse – social care system – user access	Q3/4										Awaiting responses from partners
Pensions	Q3/4										Shared service audit
Human Resources & Health and safety	Q3/4							**Good**	**Good**	**Minor**	See section 3
Information governance	Q3/4										
Partnership assurance framework	Q3/4							Not applicable - advisory			See section 3
Customer services	Q3/4							**Satisfactory**	**Satisfactory**	**Minor**	See section 3
Record keeping in relation to prosecution files	Q4										
Grant certifications	-										Completed as required

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.

Table 4: Implementation of Audit Recommendations

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	1	33%	6	46%	7	47%	14	45%
Actions due within last 3 months, but not implemented	2	67%	5	38%	-		7	23%
Actions due over 3 months ago, but not implemented	-		2	15%	8	53%	10	32%
Totals	3	100%	13	100%	15	100%	31	100%

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.

North Northamptonshire Council

NORTH NORTHAMPTONSHIRE COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

5th May 2022

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

Appendix

Appendix A – 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 the emerging national issues and areas for the Committee to consider.

2. Executive Summary

2.1. The Council's external auditors will undertake initial planning work for the 2021/22 audit in November/December 2022. 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 A.

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 June/July 2022 and 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 commentary about the levelling up white paper.

4.3. The update also includes emerging issues around asset valuations and the impact of delivering timely statement of accounts.

5. Issues and Choices

5.1. The report provides an 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 specific to this report.

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.

Grant Thornton

North Northamptonshire Council Audit Progress Report and Sector Update

Year ending 31 March 2022

April 2022

Appendix

Contents

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 Authority 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

Your key Grant Thornton team members are:

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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 local authority; 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 https://www.grantthornton.co.uk/en/services/public-sector-services/

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 either your Engagement Lead or Engagement Manager.

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Progress at March 2022

Financial Statements Audit

Our audit planning work has been delayed due to the ongoing 2020/21 audits of the predecessor bodies. Once these audits are completed we will commence our initial planning and interim fieldwork for the 2021/22 audit. Our interim fieldwork includes:

- Reviewing the Authority's control environment
- Gaining an understanding of Authority's financial systems
- Reviewing 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 are aiming to issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements in July 2022. We expect to begin our work on your draft financial statements in late September.

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

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

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. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in January 2023.

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Progress at March 2022 (cont.)

Other areas

Meetings

We met with Finance Officers in April as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

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Audit Deliverables

2021/22 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit 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.	July 2022	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the November Audit Committee.	November 2022	Not yet due
Auditors Report This includes the opinion on your financial statements.	November 2022	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	January 2023	Not yet due

2021/22 Audit-related Deliverables	Planned Date	Status
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	31 December 2022	Not yet due
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	31 January 2023	Not yet due
Pooling of housing capital receipts - certification This is the report we submit to the Department for Levelling Up, Communities and Housing ("DLUCH"). based upon the mandated agreed upon procedures we are required to perform.	February 2022	Not yet due

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Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

FRC AQR Major Local Audits_October 2021

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

Our file review results

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

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

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

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

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

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

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Financial Reporting Council annual report (cont.)

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Quality Assurance Department (QAD) Reviews

In addition to the reviews undertaken by the FRC on major local audits, the QAD team from the ICAEW undertake annual reviews of non-major local audits as well as reviews of Foundation Trusts on behalf of NHSE&I.

The QAD reviewed five of our audits this year and graded all of them (100%) as 'Satisfactory / generally acceptable' for both the financial statements and VFM elements of the audit, which is the highest grading.

Grade	Number 2020/21	Number 2020/19	Number 2019/18
Satisfactory / generally acceptable	5	6	2
Improvement required	0	1	0
Significant improvement required	0	0	0
Total	5	7	2

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis.

As auditors we have shown compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

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

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Having formal internal consultations when considering complex technical issues.

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

Conclusion

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

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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

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Levelling up White Paper – Department for Levelling Up, Communities and Housing ("DLUCH")

On 2 February the Department for Levelling Up, Communities and Housing ("DLUCH") published its Levelling Up White Paper.

The paper states "Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six "capitals":

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability."

The paper also states "This new policy regime is based on five mutually reinforcing pillars." These are set out and explained as:

1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.
3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

Levelling Up the United Kingdom - GOV.UK (www.gov.uk)

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Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Communities and Housing ("DLUCH") published its Levelling Up White Paper.

Commenting on the release of the government's Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

"The publication of today's White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The '12 missions' can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

"Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country's devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton's Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

"To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people's lives.

"The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals."

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Emergency consultation on 2021/22 reporting requirements – CIPFA

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation

2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: "DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work."

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a "temporary expedient to help improve an unacceptable situation".

The consultation closed on Thursday 3 March. Any updates to the Code are subject to oversight by the Financial Reporting Advisory Board before implementation.

The consultation can be found here:

https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-2022223-codes

Summary of the Grant Thornton response

Property, Plant & Equipment Valuations

In principle we are very supportive of changes to the measurement basis for operational property, plant and equipment. However our view is that it is too late to effect change for the 2021/22 reporting cycle. Our response highlighted a number of difficulties with this approach, including the risk that some assets then fall outside of the requirement to be revalued every five years as a minimum, and the challenge of consistent application of indexation. The proposed amendments to the Code do not appear to override the requirement that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period, which stems from IAS 16:31. If the financial reporting requirements are not sufficiently tightly defined and auditors therefore cannot obtain sufficient and appropriate audit evidence to support this requirement, there is a risk that audit opinions could be modified as a result.

Deferral of IFRS 16 - Leases

The removal of the requirement for disclosure (based upon IAS 8) in 2021/22 is not likely to have a significant impact in terms of freeing up auditor time and audit work covering the disclosures in 2022/23 would then be required in the 2022/23 audit. Savings to preparer time and effort would depend on what progress has already been made in preparing for the imminent implementation of IFRS 16.

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Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented "These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds."

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority's functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

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Good practice in annual reporting – NAO

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The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

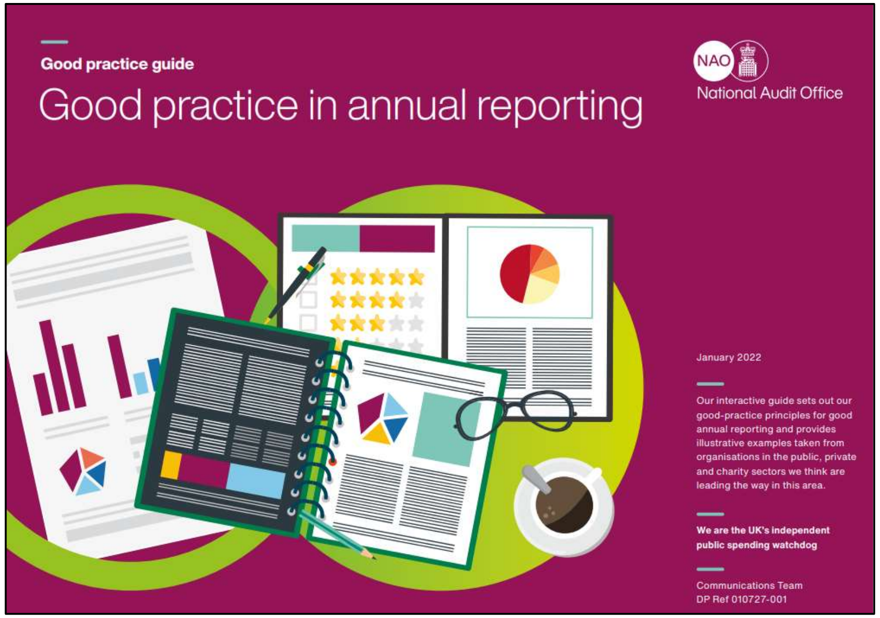
The NAO comment that the guide sets out "good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable."

The NAO further comment "The best annual reports we have seen use these principles to tell the "story" of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation's strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers' money that has been spent to deliver the outcomes the organisation seeks to achieve."

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
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:
[Good practice in annual reporting - National Audit Office (NAO) Report]

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