

Title of report: External auditors draft annual plan 2021/222

Meeting: Audit and Governance Committee

Meeting date: Monday 27 June 2022

Report by: Director of Resources and Assurance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To review and agree the external auditor's draft audit plan for 2021/22.

The external audit of the council's statement of accounts for 2021/22 is due to commence in July 2022 and their approach and plan is attached at Appendix A.

Recommendation(s)

That:

- a) The proposed external audit plan 2021/22 at Appendix A is approved subject to any recommendations that the committee may wish to make;**
- b) The committee note the "Informing the Audit Risk Assessment" document attached at Appendix B; and**
- c) The committee determine any recommendations it wishes to make to maximise the value of the combined internal and external audit process.**

Alternative options

1. There are no alternative options to approving an external audit plan. The audit plan must meet statutory requirements, however it is open to the committee to identify any additional areas of risk they wish the external audit to consider and to recommend additional actions to maximise the value of the combined internal and external audit process.

Key considerations

2. The constitution provides that the Audit and Governance Committee will:
 - a. Review and agree the external auditor's annual plan and receive regular update reports on progress.
 - b. Comment on the scope and depth of external audit work and to ensure it gives value for money.
 - c. Ensure that there are effective relationships between external and internal audit and that the value of the combined internal and external audit process is maximised.
3. Attached at Appendix A is the external audit plan for the audit of the 2021/22 Statement of Accounts which is due to commence in July 2022.
4. The appendix shares the audit approach, the focus of external audit work and the preparation work requirements. There are five standard presumed risks for all external auditor clients being:
 - Presumed risk of fraud in revenue recognition
 - Presumed risk of fraud in expenditure recognition
 - Management over-ride of controls;
 - Valuation of land and building and investment properties; and
 - Valuation of pension fund net liability
 - Valuations of infrastructure assets
5. Materiality has been determined as £7.7m for the council being 1.8% of prior years' gross expenditure. "Clearly trivial" has been set at £0.385m.
6. Following the new Code of Audit Practice 2020/21 ("the Code") there is a revised approach to value for money external audit work. The Code requires auditors to structure their commentary on value for money arrangements under the following three specified reporting criteria:-
 - a. Financial sustainability – risks that the council cannot effectively plan and manage its resources to meet financial pressures.
 - b. Governance – a risk that the council has not made informed decisions and is not effectively managing its risks.
 - c. Improving economy, efficiency and effectiveness – there is a risk that the council is not using its cost and performance data to improve the way it manages and delivers services.
7. Page 19 of Appendix A describes the work the external auditor will complete to provide their value for money commentary.
8. The committee is asked to consider whether there are any comments it would like to make with reference to the external audit plan. Progress against the plan will be reported at future committee meetings.

Community impact

9. One of the principles in the council's Code of Corporate Governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Environmental impact

10. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
11. Whilst this is a decision on the statutory external audit plan and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy, for example by completing the work remotely.

Equality duty

12. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

 - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
13. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on the statutory external audit plan, we do not believe that it will have an impact on our equality duty.

Resource implications

14. The external audit plan at Appendix A highlights that the proposed cost of the 2022/23 audit is a base fee of £101,792 plus an additional fee of £77,875 to give a total proposed fee of £179,667.
15. Within the budget for 2022/23 there is a total budget of £265,533 but this includes the budget for internal audit fees as well. Therefore, depending upon the cost of the internal audit service for 2022/23, there could be a budget pressure arising from the levy of the additional audit fee by the external auditors.
16. If a pressure does arise, this will need to be contained within the overall Directorate budget.

Legal implications

17. The Accounts and Audit Regulations 2015 (the Regulations) requires the council to produce and publish an annual Statement of Accounts in accordance with the Regulations and "proper practice".
18. Section 21 of the Local Government Act 2003 defines "proper practice" for this purpose to be the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year. The Code specifies the principles, practices, format and content required in the preparation of the Statement of Accounts.

19. The Accounts and Audit (Amendment) Regulations 2021 temporarily extends the statutory reporting deadlines for financial years starting in 2020 and 2021 from 31 July to 30 September.

Risk management

20. Appendix B documents the auditor's questions and management responses in informing the audit risk assessment. The committee is invited to review the management responses provided.

Consultees

21. None

Appendices

- Appendix A External audit plan 2021/22
Appendix B Informing the Audit Risk Assessment 2021/22 [Corrected, 23 June 2022]

Background papers

None identified