

Title of report: External auditor's draft annual plan 2022/23

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Head of Strategic Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To review and agree the external auditor's draft plan for 2022/23.

Recommendation(s)

That:

- a) The proposed external audit plan for 2022/23 in 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 in Appendix B; and**
- c) The committee determine any recommendations it wishes to make to maximise the value of the combined internal and external audit processes.**

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 auditors to consider and to recommend any 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; and
 - 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 in Appendix A is the external audit plan for the audit of the 2022/23 statement of accounts which is due to commence in July 2023.
4. The appendix shares the audit approach, the focus of external audit work and the preparation work requirements. The audit risks have been identified as:
 - Management over-ride of controls - Appendix A - page 8;
 - Valuation of land and buildings - Appendix A - page 10;
 - Valuation of investment properties - Appendix A - page 10; and
 - Valuation of pension fund net liability - Appendix A - page 9.
5. Planning materiality has been determined at £9.0 million for the council, being 1.8% of 2022/23 gross operating costs from the draft statement of accounts. Errors and omissions above the materiality level of £9.0 million will be reported in the audit findings report. Clearly trivial has been set at £0.45 million, which is 5% of materiality, below which uncorrected omissions or misstatements are not reported by external audit.
6. The revised approach to value for money external audit work has been in place since 2021/22. The National Audit Office (NAO) 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; and
 - 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. The work that the external auditor will complete on the value for money arrangements is detailed on page 17 of Appendix A.
8. There are two auditing standards which have been updated this year; ISA 315 Identifying and assessing the risks of material misstatement and ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements. The extra work that the external auditor will complete for these auditing standards is detailed on page 19 of Appendix A.

9. 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

10. 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

11. Herefordshire 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.
12. Whilst this is a decision on back office functions 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 work remotely.

Equality duty

13. 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; and
 - c. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
14. 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 back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

15. The external audit plan in Appendix A highlights the proposed cost of the 2022/23 audit comprising the scale fee of £106,417 plus an additional fee of £57,885 to give a total proposed fee of £164,302.

Legal implications

16. 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".

17. 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.

Risk management

18. 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

19. None.

Appendices

Appendix A External audit plan 2022/23

Appendix B Informing the audit risk assessment 2022/23

Background papers

None identified.