



CORPORATE GOVERNANCE COMMITTEE – 20 MAY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT PLAN AND AUDIT RISK ASSESSMENT 2023/24

Purpose

1. To present the 2023/24 external audit plans and audit risk assessment for the Council and its Pension Fund for consideration.

Audit Plans 2023/24

2. A copy of the audit plan for the County Council and the interim audit plan for the Pension Fund are included as Appendix A, and Appendix B respectively. These provide an overview of the planned scope and timing of the external audits.
3. Representatives from the County Council's external auditors, Grant Thornton UK LLP, will attend the meeting in order to present the plans and answer any questions.
4. The significant risks identified by the external auditor for 2023/24 are summarised below: (mostly the same as in 2022/23)
 - Management override of controls – review of management controls over journals, accounting estimates and accounting policies.
 - Risk of Fraud – review of business processes, accounting policies, and systems, for recognition of income and expenditure, required by Public Audit Forum Practice Note 10 and International Standards on Auditing (ISA) 240.
 - Valuation of land and buildings – review of the valuation of assets valued on a cyclical basis.
 - Valuation of the pension fund net liability – review of assumptions, methodology and data provided to the Actuary.
 - Pension Fund – valuation of investments and directly held property – review of estimates used.
5. The materiality level for the audit opinion for the County Council is £15.2m (£14.5m 2022/23) and for the Pension Fund £69m (£69m 2022/23). For the Pension Fund there is also a separate materiality level of £25m (£25m 2022/23) for the Fund Account.

6. ISA 315 requires the auditor to obtain an understanding of the IT infrastructure used by the Council including details of the processes that operate within the IT environment. As a result, as part of the audit the auditor will undertake a detailed 'IT general controls' assessment of the Oracle Fusion system and the Altair Pension Fund Administration system.
7. The auditor has not yet completed their planning assessment in relation to the Value for Money (VfM) arrangements for 2023/24. Once completed an update will be provided to the committee. The auditor has not identified any risks of significant weaknesses from their initial planning work. The 2022/23 VfM report was considered by this committee at its meeting in January 2024.
8. The external audits are due to start in September 2024 for the Council and July 2024 for the Pension Fund. The reporting dates for the audit findings reports and audit opinions are both planned to be in December 2024 which is later than the statutory deadline and the reasons for this are explained further in paras 14-16 below.
9. The proposed fees for 2023/24 for the Council are £267,006 (£132,815 in 2022/23) and for the Pension Fund £96,563 (£57,393 in 2022/23). The fees are higher due to the new 5 year external audit contracting period starting from 2023/24. An update was provided to the Committee in September 2023 explaining that the new contracts, procured by Public Sector Auditor Appointments (PSAA) for authorities that had opted in to the national scheme, followed a "challenging and protracted procurement". The procurement exercise demonstrated the limited audit capacity available to meet the demands of the local audit market resulting in a significant increase in price.

External Audit Risk Assessment

10. The external auditor has prepared a report 'Informing the Audit Risk Assessment for Leicestershire County Council 2023/24' a copy of which is attached as Appendix C to this report.
11. The assessment is undertaken by Grant Thornton as part of its risk assessment procedures. It is used to gain an understanding of the Council's processes and senior officers' views on various auditing standards. The report sets out questions raised by Grant Thornton on areas such as fraud, laws and regulations, going concerns, accounting estimates and related parties, all of which have an impact on the Council's operations.
12. Management (Finance, Internal Audit and Legal Services) have completed a self-assessment of the questions and provided responses to the External Auditor. These are included within the Auditor's report and reflect updates provided to this Committee.
13. As part of its assessment of the above risk areas, the external auditor is required to make inquiries of the Corporate Governance Committee under auditing standards. Presentation of the report to this Committee also contributes towards the effective two-way communication between auditors and the Council's Corporate Governance Committee, as 'those charged with governance'.

Production of Draft Accounts 2023/24

14. The draft Accounts for the Council and the Pension Fund are on track to be completed by the end of June 2024 as planned, discussed with the external auditor and reported to this committee in January 2024. This is one month later than the required date in the Accounts and Audit regulations which previously extended the requirement for draft accounts for 2019/20, 2020/21 and 2021/22 to the end of July each year, from the end of May.
15. Delays with the completion of the updated 2022/23 statements and increasing regulation on audit firms, increasing audit coverage and expectation, means that it is not practical to close the accounts by the end of May this year. However, this will be reviewed again for the 2024/25 financial year accounts. A note will be placed on the Council's website to advise the publication of the draft accounts will be at the end of June.
16. As previously advised by the external auditor there are significant capacity issues in the audit market. This comes from staff recruitment and retention issues combined with the change in regulations which has increased the volume of work required to be undertaken as part of the annual audit.

Recommendation

17. The Committee is asked to note the attached reports and to provide any comments.

Equality and Human Rights Implications

18. None.

Circulation Under the Local Issues Alert Procedure

19. None.

Background Papers

20. Report to the Corporate Governance Committee – External Audit of the 2022/23 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7410&Ver=4>
21. Report to the Corporate Governance Committee – Update on Audit Delays and PSAA Consultation on 2023/24 Audit Fees
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7130&Ver=4>

Appendices:

- Appendix A – External Audit Plan (County Council)
- Appendix B – External Audit Plan (Pension Fund)
- Appendix C – External Audit Risk Assessment

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