



CORPORATE GOVERNANCE COMMITTEE – 13 MAY 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INDICATIVE EXTERNAL AUDIT PLAN AND AUDIT RISK ASSESSMENT
2021/22

Purpose

1. To present the indicative External Audit Plan and Audit Risk Assessment for the Council and its Pension Fund for consideration.

Audit Plan 2021/22

2. The indicative Audit Plan for 2021/22 is included as Appendix A attached to this report. It provides an overview of the indicative planned scope and timing of the statutory audit of the Council and its Pension Fund. The formal Audit Plan is anticipated to be provided in June 2022 following completion of the Auditor's detailed 2021/22 audit planning.
3. Mark Stocks, Key Audit Partner, from the County Council's external auditors, Grant Thornton UK LLP, will attend the meeting in order to present the indicative Audit Plan and answer any questions.
4. The significant risks identified by the external auditor for 2021/22 are summarised below: (same as in 2020/21)
 - Revenue and Expenditure Recognition Risk – review of accounting for income and expenditure, mainly Covid-19 grants and expenditure.
 - Management override of controls – review of management controls over journals, accounting estimates and accounting policies.
 - 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 hard to price investments – review of estimates used.
5. The indicative Audit Plan includes a review of the Council's approach to accounting estimates and estimation uncertainty – see Audit Risk Assessment under a separate heading later in this report. New areas of focus for 2021/22 include:

- Infrastructure Assets – review of the accounting treatment applied compared with the Code of Practice. Additional advice is expected from the Chartered Institute of Public Finance and Accountancy (CIPFA) in June 2022.
 - East Midlands Freeport – the County Council is due to be the accountable body for the new arrangement. Working with officers on the accounting, audit and governance arrangements.
6. The Auditor has not yet determined materiality levels for the year ended 2021/22, but anticipates it to be similar to 2020/21. The anticipated levels for the audit opinion for the County Council is £11.45m (£12m 2020/21) and for the Pension Fund £29m (£29m 2020/21). The limit set is at the highest level for the auditors' major audits.
 7. Value for Money (VfM) arrangements and the Auditor's Annual Report. The Auditor has not yet undertaken their planning assessment for 2021/22 but anticipates that they will follow up on the actions taken in response to the eight improvement recommendations made in the 2020/21 Auditor's Annual Report which the Committee previously considered and commented on at its meeting in January 2022.
 8. The proposed fees for 2021/22 for the County Council are £114,715 (£107,602, 2020/21) and for the Pension Fund £33,193 (£34,530, 2020/21). The increase for the County Council is for expected additional work relating to Infrastructure Assets which will be reviewed following the advice from CIPFA on the accounting treatment, as mentioned earlier in the report.
 9. The 2021/22 audit will be the fourth year of a five-year contract. The scale fee (set by Public Sector Audit Appointments Limited (PSAA), the sector led body for external auditor appointments following a tendering exercise) in 2017 is £59,252 for the County Council and £21,280 for the Pension Fund. It should be noted that these fees were 23% lower than the previous contract. The fees have risen in recent years due to additional audit work required by enhanced audit requirements for new standards, enhanced procedures for land and buildings and pension valuations, and the revised approach to the VfM audit. The increased expectations on audit firms is across all sectors and all audit firms. PSAA is on track with its procurement of audit services for opted-in bodies for the audit of accounts from 2023/24 to 2027/28. The invitation to tender was issued as planned on 7 April 2022 and tenderers have until noon on 11 July 2022 to submit their responses.
 10. The Government, in response to the Redmond Review on the effectiveness of external audit, has recognised the need to revise the fee structure for local audits. During 2020/21 the Department of Levelling Up, Housing and Communities (DLUHC) announced additional grant funding to support increased local audit fees for local government bodies. The County Council received £30,545 and the Pension Fund £10,970. These grants are expected to continue.

External Audit Risk Assessment

11. The External Auditor has prepared a report 'Informing the Audit Risk Assessment for Leicestershire County Council and Pension Fund 2021/22' a copy of which is attached as Appendix B to this report.

12. 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 managing 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.
13. 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.
14. 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'.
15. Representatives from Grant Thornton will attend the meeting to present the report and answer any questions.

Production of Draft Accounts - Update

16. The Accounts and Audit (Amendment) Regulations were updated in March 2021. This update amended the original 2015 Accounts and Audit Regulation deadline, for the publication of draft accounts, from the end of May to the end of July, to allow additional time due to the impact of the Covid-19 pandemic. The revised dates apply to the 2020/21 and 2021/22 financial years only. The Council is on track to meet the deadlines for 2021/22.

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: Auditor's Annual Report 2020/21 – 28 January 2022
<https://politics.leics.gov.uk/documents/s166180/AAR%20LCC%2020-21%20v2.pdf>

Appendices:

Appendix A – External Audit Plan
Appendix B – External Audit Risk Assessment

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