



CORPORATE GOVERNANCE COMMITTEE – 26 MAY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT PLAN AND AUDIT RISK ASSESSMENT 2022/23

Purpose

1. To present the 2022/23 external audit plan and audit risk assessment for the Council and its Pension Fund for consideration.

Audit Plan 2022/23

2. A copy of the audit plans for the County Council and 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. 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 plans and answer any questions.
4. The significant risks identified by the external auditor for 2022/23 are summarised below: (same as in 2021/22)
 - 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 materiality level for the audit opinion for the County Council is £14.5m (£14m 2021/22) and for the Pension Fund £83m (£40m 2021/22). The limits set are at the highest level for the auditors' major audits. For the Pension Fund, the auditor has also introduced a new lower materiality level for Fund Account transactions, those entries other than Investments, of £23m.
6. The auditor has not yet completed their planning assessment in relation to the Value for Money (VfM) arrangements for 2022/23. Once completed an update will be

provided to the committee. At present the significant risks identified by the auditor are special educational needs expenditure and the dedicated schools grant (DSG) deficit, and East Midlands Freeport. The 2021/22 VfM report was considered by this committee at its meeting in March 2023.

7. The auditor has also advised that the introduction of auditing standard 'ISA315 - identifying and assessing the risks of material misstatement' is a significant change 2022/23. This will require the auditor to obtain an enhanced understanding of the Council's business processes, IT systems and controls; increasing the scope, nature and extent of audit documentation of these areas. An additional audit fee has been included for this work.
8. The external audits are due to start in August 2023 for the Council and July 2023 for the Pension Fund. The reporting dates for the audit findings report and audit opinion are still to be confirmed.
9. The proposed fees for 2022/23 for the Council are £128,815 (£139,777, 2021/22) and for the Pension Fund £36,793 (£33,193 2021/22).

External Audit Risk Assessment

10. The External Auditor has prepared a report 'Informing the Audit Risk Assessment for Leicestershire County Council and Pension Fund 2022/23' 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 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.
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 2022/23

14. The draft Accounts for the Council and the Pension Fund are on track to be completed by the end of June 2023 as planned and discussed with the external auditor. This is the same completion date as in the previous two years. The Accounts and Audit (Amendment) 2021 regulations 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. During late February and early March 2023, the Department for Levelling Up, Housing and Communities (DLUHC) undertook a consultation on the deadlines. On the 3 April 2023, DLUHC announced the reversion to the previous, pre Covid-19, deadline of the end of May 2023, effectively halving the time allowed. The audited accounts deadline was to remain at the extended date of 30 November. The lateness of this announcement and the audit of the 2021/22 accounts only being completed in March 2023 has meant that there is insufficient time to bring forward the completion dates this year. 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. The timetable for the next, 2023/24, accounts will be updated for the earlier date.
16. As advised by the external auditor at the Committee meeting on 16 March 2023 there are significant capacity issues in the audit market. This comes from a combination of staff recruitment and retention combined with the change in Regulations which had increased the volume of work required to be undertaken as part of the annual audit. Mr Stocks provided assurance that Grant Thornton would continue to work to stabilise its audit team and adjust to the increased audit work required, but said that delays might continue for some time until the market could recover.

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 2021/22 – 16 March 2023
<https://politics.leics.gov.uk/ieListDocuments.aspx?CIId=434&MIId=7314&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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