

Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Subject Matter: External Audit Plan 2021/22

Meeting: Corporate Governance Committee – 30th
November 2022

Executive Portfolio: Executive Councillor for Finance and Resources

Report by: Chief Finance Officer

Ward(s) affected: All

Executive Summary:

- In preparation for the 2021/22 audit, Ernst and Young are required to inform those charged with governance how they plan to undertake the audit. The plan is attached as Appendix 1, and outlines:
 - an overview of the 2021/22 audit strategy;
 - the audit risks;
 - the value for money risks;
 - the audit materiality;
 - the scope of the audit;
 - the audit team;
 - the audit timeline; and
 - the auditor's independence.

Recommendation: Recommendation(s):

It is recommended that the Committee reviews the attached External Audit Plan 2021/22 (**Appendix 1**) and:

- comments on the plan in general.
- with the expected number of external audit updates expected to be received by the Committee between now and the end of the audit, that the Committee comments on the level of comfort that the frequency of reporting will award (para 4.6).

1. PURPOSE

- 1.1 This is the fifth year that Ernst and Young will be the Council's auditor.
- 1.2 Ernst and Young are required to detail how the audit will be carried out and this is detailed in Ernst and Young's Audit Plan at **Appendix 1**.

The audit plan includes:

- an overview of the 2021/22 audit strategy;
 - the audit risks;
 - the value for money risks;
 - the audit materiality;
 - the scope of the audit;
 - the audit team;
 - the audit timeline; and
 - the auditor's independence.
- 1.3 The audit plan has been designed to take into account several key inputs:
- strategic, operational, and financial risks relevant to the financial statements;
 - developments in financial reporting and auditing standards;
 - the quality of systems and processes;
 - changes in the business and regulatory environment; and
 - management's view on all of the above.
- 1.4 At the completion of the audit, Ernst and Young will issue an audit report giving their opinion on whether the Council's financial statements give a true and fair view of the Council's financial position as at the 31 March 2022.

2. BACKGROUND

- 2.1 In order for Ernst and Young to get to an opinion on whether the financial statements give a true and fair view, the scope of the work they will complete is:
- to review and report on the Council's financial statements; and
 - to review and report on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources.
- 2.2 The review will take place under the International Standards on Auditing (UK and Ireland).

3. RISKS

3.1 Ernst and Young have assessed the risks that the Council is subject to, through discussion with those charged with governance and council officers. The risks can be broken down into three categories:

- financial statement risks; including
- fraud and error; and
- value for money risks.

3.2 The financial statement risks to which the Council is subject include:

- mis-statements due to fraud or error;
- risk of fraud in revenue and expenditure recognition;
- risk of fraud or error relating to covid-19 government grant support schemes;
- valuation of investment properties and other land and buildings;
- pension liability valuation;
- business rates appeals provision;
- recoverability of receivables; and
- going concern.

3.3 Value for money risks

When assessing the value for money risks Ernst and Young will determine whether the Council has in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. Proper arrangements comprise:

- taking informed decisions;
- deploying resources in a sustainable manner; and
- working with partners and other third parties.

3.4 When considering the arrangements Ernst and Young will also draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that their assessment is made against a framework that should already be in place.

4. AUDIT APPROACH 2021/22

4.1 The audit will cover the following:

- *analytics* - Ernst and Young will use computer-based analytics tools to capture whole populations of financial data; the data will then be subject to testing to identify exceptions and anomalies. This type of analysis will give an increased likelihood of identifying errors over random sampling.

- *internal audit* - Internal Audit's work in documenting the financial systems and controls, will be used to update Ernst and Young's understanding, and to carry out walk-throughs of those systems.
- *use of specialists* - when auditing key judgements, reliance will be placed on specialists, who have expertise not possessed by the core audit team. The specialists will be used to analyse source data, assess assumptions and judge whether the findings are reflected in the accounts.
- *mandatory audit procedures* - Ernst and Young will also address the risk of fraud and error, review significant disclosures and corporate controls, report on inconsistencies in the financial statements and address auditor independence.

4.2 In this way the auditors will be able to assess key controls, identify significant risks and carry out substantive testing on transactions and balances.

Materiality

4.3 The level of materiality is defined as the magnitude of an omission or misstatement that individually or in aggregate could be expected to influence users of the accounts.

4.4 The planning materiality level for 2021/22 has been set at £1.93m which represents 2% of gross expenditure on provision of services (taken from the Council's 2021/22 draft financial statements). Performance materiality has been set at £1.45m (75% of the planning materiality). In addition, mis-statements greater than £96,500 will be reported. It is possible that the level of materiality may change during the audit.

4.5 At the end of the audit Ernst and Young will form an audit opinion by reference to all matters that could be significant to users of the accounts, including the effect of misstatements.

Timetable

4.6 The timetable below shows the key dates for the audit and also the dates at which Corporate Governance Committee (CGC) will receive reports and updates. The full details of the required communications to those charged with governance are shown in Appendix B of the Audit Plan.

Audit Phase	Timetable	CGC Update	Deliverables
High level planning	June to August 2022	30 November 2022	Audit plan
Year-end audit	February to March 2023		
Audit completion procedures	March 2023	22 March 2023	Audit plan update – VfM assessment; Audit results report; Audit opinion & completion certificates
Conclusion of reporting	April 2023		Auditor's annual report

Auditor Independence

- 4.7 The Ethical Standards require that Ernst and Young communicate with the Council on a timely basis on all significant matters that bear on their independence and objectivity. The aim of this is to ensure full and fair disclosure to those charged with governance.
- 4.8 Ernst and Young have highlighted within the Audit Plan threats to their independence and how they expect to mitigate these. The threats include:
- self-interest threats – other on-going relationships;
 - self-review threats – fees payable to Ernst and Young are disclosed in the financial statements;
 - management threats – making decisions for the Council; and
 - other threats – advocacy or intimidation.

5.0 AUDIT FEES

- 5.1 The total audit scale fee for 2021/22 is £94,700.
- 5.2 It is possible the fee may change if additional work is required because misstatements lead to extra testing, any changes to fees will be discussed with the Council in advance. The fee levels are based on the following assumptions:

- officers meeting agreed timetable of deliverables;
- accounts and value for money conclusions are unqualified;
- appropriate quality of documentation is provided by the Council; and
- the Council has an effective control environment.

5.3 Fees for consideration of correspondence from public and formal objections will be an additional charge.

6. KEY IMPACTS/RISKS

6.1 The risks associated with the actions in this report are financial statement risks and value for money risks, these risks are addressed in section 3.

7. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

7.1 The plan including key dates and milestones that are necessary in order to complete the audit successfully are included in Section 7 of Ernst and Young's plan at Appendix 1

8. LINK TO CORPORATE PLAN

8.1 Becoming a more efficient and effective Council

9. LEGAL IMPLICATIONS

9.1 There are no direct legal implications arising from this report.

10. RESOURCE IMPLICATIONS

10.1 The budget for External Audit Fees is £71,000, which excludes the proposed increase to the scale fee.

11. OTHER IMPLICATIONS

11.1 No other implications.

12. REASONS FOR THE RECOMMENDED DECISIONS

- 12.1 It is recommended that the Committee reviews the attached External Audit Plan 2021/22 (**Appendix 1**) so members can consider the audit process to be followed.

13. LIST OF APPENDICES INCLUDED

- 13.1 **Appendix 1** – Huntingdonshire District Council Audit Plan 2021/22

BACKGROUND PAPERS

Ernst and Young Audit Plan

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