

Harborough District Council

Report to the Audit & Standards Committee 28 June 2022



Report Number:	4
Title:	External Audit: Audit Strategy Memorandum
Status:	Public
Key Decision:	No
Report Author:	Mr Clive Mason. Director; Finance, ICT and Assets <i>On behalf of Mark Surrige, Engagement Lead of Mazars LLP</i>
Portfolio Holder:	Cllr James Hallam
Appendices:	Appendix 1: Mazars, Audit Strategy Memorandum for HDC, for year ending 31 March 2022

Executive Summary

The Council has nominated that the members of the Audit & Standards Committee (ASC) are to be those members “changed with governance”. A key part of the external auditors (Mazars LLP) role is to inform “those charged with governance” of their plans in respect of the audit of the 2021/22 financial statements; this is achieved by the issue of their Audit Strategy Memorandum.

Recommendations

The committee considers the Audit Strategy Memorandum (Appendix 1) and comments as it considers necessary.

Reasons for Recommendations

It is essential that “those charged with governance” have an opportunity to consider and comment as they consider necessary on the external auditor’s approach to the audit of the 2021/22 financial statements.

1. Purpose of Report

- 1.1 To update members on the audit approach of Mazars LLP, the Councils external auditor in respect of the year ending 31 March 2022. The update will highlight significant audit risks and areas of key judgement, including details of the audit team.



2. Background

External Audit

- 2.1. As per audit regulations, the Council is required to have its accounts audited on an annual basis; under the current national external audit contract Mazars LLP are the Councils designated external auditor..

Audit of Accounts

- 2.2 Over the summer the external auditor will start the audit of the Councils 2021/22 Financial Statements (the Annual Financial Report). Prior to starting the audit the external auditor is required to report to “those charged with governance” on their approach to completing the audit, the Audit Strategy Memorandum (**Appendix 1**).

3. Detail

- 3.1 The following paragraphs summarise the main items discussed with the Audit Strategy Memorandum.

Engagement and Responsibilities

- 3.2 Mazars are appointed as the Councils external audit, as per the engagement arrangements set out in the [Statement of Responsibilities of Auditors and Audited Bodies](#), issued by the Public Sector Audit Appointments Ltd. The auditor’s responsibilities are derived from the Local Audit and Accountability Act 2014 and the Code of Audit Practice, as issued by the National Audit Office (NAO). The four main areas of responsibility for the external auditors are in respect of
- **Audit Opinion**; the auditors are required to form and express an opinion on the financial statements.
 - **Value for Money**; the auditors are required to provide a commentary on the arrangements that the Council has in place to secure economy, efficiency, and effectiveness in its use of resources.
 - **Fraud**; the auditors are required to determine, of those charged with governance, management, and internal audit as to their knowledge of fraud and its risk, along with gaining assurance that the financial statements as a whole are free from material misstatement.
 - **Wider reporting and electors’ rights**; the auditors is required to report to the NAO in respect of the Whole of Government Accounts and award local electors the opportunity to question them on the Councils accounting records.

Audit Scope, Approach and Timeline

- 3.3 **Audit Scope**; the auditor will comply with all professional requirements; including those of the International Standards of Auditing (UK) relevant ethical and professional standards and the terms of the audit engagement itself. The main emphasis will be to consider activities relating to higher risk of material misstatement; management judgement and estimation, new and changed accounting policies, changes in operations and reflections on past material misstatements (if any).

3.4 **Audit Approach**; the approach is risk-based, driven by the issues that lead to a higher risk of material misstatement. An assessment of risk is undertaken, and an audit strategy developed, conclusions will then be drawn on whether controls in place are appropriately designed or not and this will determine the substantive nature of audit testing.

3.5 The timetable for audit completion is based on the national timetable as proposed by the Department for Levelling Up, Housing and Communities, which is as follows:

- **Planning:** January-February 2022
- **Interim:** March 2022
- **Fieldwork:** July-August 2022
- **Completion:** By November 2022

3.6 In respect of specific aspects of the audit, members may wish to note:

- **Use of experts**; as part of the production of the financial statements the Council will use experts to determine appropriate values i.e. in respect of Pensions; via Leicestershire County Council, the actuary Hymans Robertson LLP will provide estimated pension valuations. The auditors will review these expert opinions in line with audit standards and practice.
- **Service organisations**; the auditors will review the work of organisations who provide services to the council; especially those that are part of the information systems relevant to financial reporting e.g. Internal Audit.
- **Group audit**; the auditors will review the financial consolidation arrangements of any subsidiary companies.

Significant Risks and Other Key Judgement Areas

3.7 The external auditor considers risks as either:

- significant (a risk of material misstatement that may require special audit consideration),
- enhance (a higher risk of material misstatement but not significant, such as judgements and accounting estimates), and
- standard risk (relatively routine, non-complex transactions).

3.8 The auditors risk assessment in respect of impact and likelihood of occurrence is shown below:



Value for Money

3.8 In respect of value for money (VfM), this will be the second year that the auditors have been required to undertake VfM work. The auditor is required to form a view, based on NAO guidance, as to whether the Council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources. The specific reporting criteria relating to VfM include:

- **Financial sustainability**, how the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance**, how the Council ensures that it makes informed decisions and manages its risks.
- **Improving economy, efficiency, and effectiveness**, how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Fees for audit

3.9 The proposed fee for the 2021/22 audit is £51,072, this is £7,500 (13%) less than the actual fee for 2020/21 £58,072.

Independence

3.10 In the memorandum, as required by the Financial Reporting Council, the external auditors have confirmed their commitment to the Council in respect of their independence.

Materiality

3.11 The external auditors considered materiality in respect of their audit of the financial statements are shown below:

Threshold	Initial threshold £'000s
Group materiality	861
Overall materiality	859
Performance materiality	687
Specific materiality – Senior Officers Remuneration (Note 32 in the 2020/21 financial statements)	5
Trivial threshold for errors to be reported to Audit and Standards Committee	26

4. Implications of Decisions

4.1. **Corporate Priorities**; the audit of the Councils financial statements provides assurance to the Council in respect of governance and financial stewardship, which directly supports the delivery of the Councils corporate priorities.

4.2. **Financial**; there are no direct financial implications arising from this report. There is budgetary provision in respect of the audit fee. However, members must note that the fee stated is “proposed”; there are many factors that may cause or mitigate an increase

in fee, some of which are inside the Councils control (i.e. no identified errors or omissions) or challenges by electors.

- 4.3. **Legal**; there are no direct legal implications arising from this report. The relevant statutory provisions relating to the audit are noted within the main body of the report.
- 4.4. **Policy**; there are no direct policy implications arising from this report.
- 4.5. **Environmental Implications including contributions to achieving a net zero carbon Council by 2030**; there are no direct environmental implications arising from this report.
- 4.6. **Risk Management**; there are no direct risk management implications arising from this report. However, members must not think that the audit approach is “risk-based” and this is discussed within the main body of the report.
- 4.7. **Equalities Impact**; there are no direct equalities implications arising from the report.
- 4.8. **Data Protection**; there are no direct data protection implications arising from the report.
5. **Summary of Consultation and Outcome**
 - 5.1 The external auditors have consulted with the Councils s.151 and Deputy 151 officers in the development of their Audit Strategy Memorandum; this report is the auditors consultation with “those charged with governance”.
6. **Alternative Options Considered**
 - 6.1 No alternative options considered as none are appropriate.
7. **Background papers**
 - 7.1 None