

Harborough District Council

Report to the Audit & Standards Committee 31st July 2024



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| Title: | External Audit: Harborough District Council Audit Plan for year-ending 31 March 2024 |
| Status: | Public |
| Key Decision: | No |
| Report Author: | Covering report: Clive Mason, Director of Resources (& S.151 Officer) Appendix 1 – Helen Lillington, Director, Public Sector Audit, Grant Thornton UK LLP |
| Portfolio Holder: | Cllr Mark Graves |
| Appendices: | Appendix A – Grant Thornton’s “Harborough District Council Audit Plan; year ending 31 March 2024” Appendix B – Questions on approach to adopting IFRS 16 |

Executive Summary

The Council's external auditor, Grant Thornton, will be undertaking the audit of the 2023/24 statements of accounts and other related statutory audit assessments; this will be their first year. Part of the audit process is for them to issue, and for this committee (as those charged with governance), to consider and comment on the auditors Audit Plan.

The Audit Plan itself addresses a wide range of matters; including the approach to engagement, risks, materiality, value for money and resourcing.

Recommendations

The committee considers and comments as it considers necessary on the Harborough District Council Audit Plan for the year ending 31 March 2024, as submitted by Grant Thornton UK LLP (Appendix A).

Reasons for Recommendations

To support the Audit and Standards Committee's role in ensuring good governance, strong financial management and an effective internal control environment.



1. Purpose of Report

- 1.1 To provide the Committee with the “Harborough District Council Audit Plan; year ending 31 March 2024” as submitted by its external auditor, Grant Thornton.

2. Background

External Audit

- 2.1. One of the primary roles of external audit is the external review of the Councils Annual Financial Report (AFR, also known as the Statement of Accounts) and the Annual Governance Statement. In the Autumn it is expected that the auditors will commence their audit of the 2023/24 AFR with reporting on their opinion and value for money statement hopefully in the new year. However, at the start of this audit process the external auditor has submitted to the Committee its Audit Plan to enable members to comment as they consider necessary.

3. Detail

- 3.1 The Audit Plan, (Appendix A) provides a comprehensive view of the external auditors considerations in respect of their proposed audit process. Below is some commentary on the main elements of the report

3.2 Introduction and Headlines (*page 6 to 7 of Appendix A, the audit plan*)

- 3.2.1 **Respective responsibilities**; the National Audit Office has issued a Code of Practice which summaries the responsibilities of auditors and audited bodies (the Council). These responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments.
- 3.2.2 **Scope of Audit**; the auditors are responsible for expressing an opinion on the Council and group’s financial statements that have been prepared by management with the oversight of this Committee. The aim being to consider if their sufficient arrangements in place in respect of value for money in the use of resources. The audit approach is based on the understanding of the Council’s business and risk.
- 3.2.3 **Significant risks**; in the main these are the management of override of controls, valuation of land and buildings, pension fund valuation and the implementation of a new financial system. These are common “risks” to all local authorities.
- 3.2.4 **Materiality**; the auditors have determined that at this stage in the audit planning cycle the materiality for the group is £560k, and £550k for the Council (representing 1.6% of prior year gross operating costs). The triviality level is £28k for the group, £27.5k for the Council (*Please also see page 14 of Appendix A, the audit plan*).
- 3.2.5 In respect of materiality, members should note that a new limit of £550k is 33.7% less than what the previous auditors, Mazars, had set (£830k, [see section 3 to the Audit Completion Report reported to the Committee in April 2024](#)). The auditors have determined that this “lower” materiality threshold is due to the following reasons:

- i. **Prior Year Accounts Remain Unsigned**, at the time of issue of the audit plan, the Council had not received the final signed 2022/23 Audited Annual Financial Statement from its previous auditor. At the time of drafting this report the Director of Resources can confirm that the accounts along with the Annual Governance Statement are awaiting signature by the auditor.
- ii. **New Financial System**, the auditor had wanted to start reviewing the cross-over balances earlier this year. However, due to resources within the Finance Team this was not possible. This work is now scheduled for early August 2024.
- iii. **Review of Predecessor Auditor**, when there is a change of auditor, the new auditor will want to review the predecessors audit files. All auditors have a slightly different approach to how an audit is conducted.

3.2.6 The auditor has confirmed that between the issue of the final audit plan and the start of the audit, materiality will be reviewed on an ongoing basis.

3.2.7 **Value of Money Arrangements**; this work has yet to commence but is anticipated to be completed in time for reporting to Committee in January 2025 (*Please also see page 16 of Appendix A, the audit plan*).

3.2.8 **Audit Logistics**; the audit of the accounts is expected to be completed by the end of October 2024. The audit scale fee is £136k; this being based on the principle of a good set of financial statement and working papers, with no significant matters arising (*Please also see page 18 and 19 of Appendix A, the audit plan*).

3.3 **Significant Risks Identified**

3.3.1 There are six significant risks identified by the auditor in respect of the Councils financial statements which are split between risks associated with only the Council and/or the Group (this being the inclusion of Harborough District Commercial Services Ltd, HDCS). In summary these risks are:

Council only

3.3.2 **Risk of fraud in revenue recognition and expenditure**; this is a risk regarding how the council recognises its revenue spend and is required to be addressed as part of auditing standards. However, the auditors have considered that at this time that satisfied that this is not a significant risk.

Council and Group

3.3.3 **Management over-ride of controls**; this risk relates to the Council changing its financial performance to meet external expectations. The auditors review a number of controls to ensure that changes are appropriate.

3.3.4 **Valuation of Land and Buildings**; the council holds onto a not insignificant property portfolio. This portfolio is values on a rolling basis and the auditors review this process to ensure that the values reported are fair.

- 3.3.5 **Valuation of the Pension Fund Net Liability;** the estimated pension net liability is significant. The auditors undertake a review to ensure that the amounts reported are fair.
- 3.3.6 **Data migration with new System Implementation;** the migration to a new finance system always brings with it added risk in respect of brought forward reserve balances and processes. The auditors will review various aspects of the migration.

Group only

- 3.3.7 **Valuation of Investment Property;** HDCS values its investment property on an annual basis. In a similar way to 3.3.4 above, the auditors will review to ensure that the values are fair.

3.4 IT Audit Strategy

- 3.4.1 The auditors will require an understanding of the Councils relevant information technology and infrastructure.

3.5 Audit Logistics and Team

- 3.5.1 There will be three main auditors involved with the leadership of the audit, and there will be a clearly defined and agreed audit timetable to ensure that the audit is delivered in a timely manner. The main requisites to achieve this are:

- Production of draft financial statements of good quality, including any Annual Report and Annual Governance Statement.
- Production of good quality working papers.
- Agreed data reports are made available at the start of the audit; duly reconciled.
- Staff are available as agreed.
- Audit queries are responded to promptly and adequately.

3.6 International Financial Reporting Standard 16 'Leases' and related disclosures

- 3.6.1 This is a new reporting standard that is to be implemented from April 2024. The Council does have a few leases but they are limited compared to those of other councils. The Councils initial assessment is that this change in accounting is not likely to be significant; however the council will undertake a review to determine its impact. The auditors will review what actions the council has taken and at Appendix B there is a summary of the draft responses to this review.

4. Implications of Decisions

- 4.1. **Corporate Priorities;** external audit provides assurance to the Council in respect of its financial governance and value for money, which directly supports the delivery of the Councils corporate priorities.
- 4.2. **Financial;** there are no direct financial implications arising from this report.
- 4.3. **Legal;** there are no direct legal implications arising from this 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 that the audit approach is “risk-based” and an effective internal audit service is one means by which the Council is able to effectively manage risk.
- 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 auditor has consulted with the Councils s.151 in respect of audit planning and progress.

6. **Alternative Options Considered**

- 6.1 No alternative options considered as none are appropriate.

7. **Background papers**

- 7.1 None

