

Item

EXTERNAL AUDIT PLAN 2023/24



To:

Civic Affairs Committee 10/07/2024

Report by:

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Wards affected:

All

1. Introduction

- 1.1 The attached Audit Plan 2023/24 from EY (Appendix 1) summarises the proposed approach to the 2023/24 external audit, including a consideration of the most significant audit risks.
- 1.2 EY staff will be available to discuss their report and answer any questions arising.

2. Recommendations

- 2.1 That the contents of the EY Audit Plan 2023/24 are noted.

3. Background

- 3.1 In line with the National Audit Office (NAO) Code of Audit Practice, EY are required to review and report on the Council's Statement of Accounts. They are also required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources, and report a commentary on those arrangements (also known as the 'value for money' or 'VFM' commentary).

- 3.2 The attached Audit Plan details the approach that EY will use in relation to the 2023/24 audit. It specifies the work they will undertake, when they anticipate completing this work and how they will report their findings. It also details EY's assessment of the key risks with regards to the Statement of Accounts.
- 3.3 There is currently a significant backlog of outstanding audits across the local government sector. Stakeholders including central government, the NAO and the Chartered Institute of Public Finance and Accountancy (CIPFA) have proposed a number of measures to seek to address this issue, subject to consultation. Further details are set out on page 6 of the attached Audit Plan.
- 3.4 As far as this Council is concerned, no audit has yet taken place of the 2022/23 Statement of Accounts. Under the current proposals, it is likely that these accounts will not be audited, and instead the auditors will provide a 'disclaimer' opinion. This position will be shared by a large number of local authorities across the country. There will still be a requirement, however, for auditors to issue commentary on the Council's arrangements to secure value for money, and EY have presented a separate report to the Committee on 10 July 2024 outlining their interim progress in this area.
- 3.5 EY are currently planning to carry out a full scope audit of the 2023/24 accounts, and the proposed timetable for this is set out in section 7 of their Audit Plan. This would see the audit completed by the end of November 2024. However, it should be noted that this is dependent upon the outcome of the various consultations on measures to address audit backlogs. For example, the widespread use of disclaimer opinions across the sector is likely to require legislation to be passed, and there is a significant risk that the July General Election and potential for a new government may cause delays in this process. Alternatively, should current plans be abandoned, it may become necessary to pause work on the 2023/24 accounts whilst the 2022/23 accounts are audited. Such matters will fall largely outside of the control of both the Council and EY, but the Committee will be kept informed through regular reporting throughout the process.

4. Statement of Accounts audit

- 4.1 Section 2 of the attached Audit Plan sets out the key risks identified by EY in respect of the Statement of Accounts audit. Since no audit has yet taken place of the 2022/23 accounts, risks are presented relative to their 2021/22 levels.
- 4.2 There is one new significant risk in relation to accounting for net pension assets. This arises from the fact that the Council now has a net pension asset, rather than a net pension liability (i.e. the Council's share of assets in the pension fund is currently greater than the estimated liability to pay pension benefits in the future). This gives rise to additional technical accounting considerations which are considered by EY to increase the inherent risk of misstatement. Further details are set out on page 18 of the attached Audit Plan.
- 4.3 In addition, a new inherent risk has been identified in respect of the provision for HRA rent refunds, as set out on page 20 of the attached Audit Plan.
- 4.4 The level of risk associated with the valuation of land and buildings was increased in 2021/22 following the appointment of new external valuers. Now the valuers are in their third year of working with the Council, with no significant issues identified in the first two years, the risk has been reduced back to its baseline inherent risk level.
- 4.5 EY have set a planning materiality level of £3.39 million, which represents 2% of the previous year's gross expenditure on the provision of services. The 'audit differences' threshold above which all uncorrected misstatements will be reported by the auditors has been set at £0.17 million. Further details are set out on page 10 of the attached Audit Plan.

5. VFM commentary

- 5.1 Under the NAO Code of Audit Practice, auditors are required to publish a commentary on the Council's VFM arrangements against three reporting criteria as follows:-
- Financial sustainability
 - Governance
 - Improving economy, efficiency and effectiveness

Further details can be found in section 3 of the attached report.

- 5.2 EY have yet to complete their detailed VFM planning, and they will update the Committee on the outcome of their VFM risk assessment and their planning response to any identified risks at a future meeting. EY have stated that the Council's arrangements in relation to financial sustainability will be one focus of this work.

6. Implications

a) Financial Implications

The proposed audit fee is set out at Appendix B to the attached report. It should be noted that the core audit fee (scale fee) is set independently by the appointing body, Public Sector Audit Appointments Ltd (PSAA). A new contracting period commenced in 2023/24, which has seen a significant increase in the scale fee from £61,962 to £174,191. This is in recognition of significant additional work which has been required in the local authority audit sector in recent years, which in some ways has contributed towards the current audit backlog situation.

The actual fee to be paid in respect of 2022/23 will be determined by PSAA, in light of the proposals to clear the audit backlog set out in section 3 above.

b) Staffing Implications

None

c) Equality and Poverty Implications

None

d) Environmental Implications

None

e) Procurement Implications

None

f) Community Safety Implications

None

7. Consultation and communication considerations

None

8. Background papers

No background papers were used in the preparation of this report.

9. Appendices

Appendix 1 – EY Audit Plan 2023/24

10. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Jody Etherington, Chief Finance Officer, tel: 01223 - 458130, email: jody.etherington@cambridge.gov.uk.