

Audit Planning Update 2021/22 and Progress Report

Harrogate Borough Council

Audit and Governance Committee
January 2023



1. Progress update including updated planning in respect of group accounts
2. National publications

01

Section 01:
Audit Progress

Audit progress

Purpose of this report

This report provides the Committee's January 2023 meeting with updates on:

- the 2021/22 (this section); and
- recent relevant reports and publications for your information (Section 2).

2021/22 audit

Following discussions earlier this year, the Council's assessment is that group accounts are required, consolidating its wholly owned subsidiary, Brimhams Active. We have, therefore, updated our audit planning and risk assessment; our updated testing strategy, containing the matters we are required to communicate to you, is set out in the following section.

We received the draft 2021/22 financial statements authorised for issue on 4 December 2022 and have now begun our audit. These draft financial statements did not include group accounts, however, these are to be provided at a later stage.

We note the Council's assessment that it does not need to consolidate its other subsidiary, Bracewell Homes, on materiality grounds; we will critically review this as part of our audit work.

Group audit approach

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its interests in other entities and determined that group accounts are required which will consolidate its interest in Brimhams Active. This section sets out the planned work in respect of Brimhams' which we refer to here as a component.

Assessment of components

We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the first table in this section overleaf.

Nature and scope of planned work

The second table overleaf sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

Nature of work

Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

Components being treated as 'significant' and subject to a full scope audit are:

- the Council; and
- Brimhams Active.

Group audit approach

Nature of the group and audit approach

The following tables set out the nature of the group and our assessment in terms of significance as well as our audit approach.

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement	Commentary
Harrogate Borough Council	Parent – district council	Mazars LLP	Yes	Yes	Full audit scope – ultimate parent
Brimhams Active	Subsidiary 100% owned by the Council for the provision of leisure and wellbeing services	Not applicable; falls below the threshold for an external audit	Yes (pensions liabilities)	Yes (pensions liabilities)	Full audit scope: as there is no component auditor, we will carry out sufficient, appropriate work at the Group level in order to be able to give a Group opinion.

Entity	% of assets	% of liabilities	% of income	% of expenditure	% of pensions liabilities	Commentary
Harrogate Borough Council	99.52%	92.23%	96.63%	96.09%	76.54%	Full scope audit.
Brimhams Active	0.48%	7.77%	3.37%	3.91%	23.46%	Full audit scope: as there is no component auditor, we will carry out sufficient, appropriate work at the Group level in order to be able to give a Group opinion.
	100%	100%	100%	100%	100%	

Source: 2021/22 unaudited financial statements

Group audit approach

Group materiality

The table below sets out our updated materiality for the Council based on the 2021/22 draft financial statements as well as our Group materiality assessment. We will update Members of the group materiality, upon receipt of the group accounts, which have not been received at the time of issuing this report.

Threshold	Group £000s	Single entity (Council) £000s
Overall headline materiality	TBC	2,470
Performance materiality	TBC	1,852
Trivial threshold (above which errors are reported to the Audit & Governance Committee)	TBC	74
Specific materiality: officers' remuneration	n/a	£5k per individual
Specific materiality: exit packages: threshold set based on auditor judgement, including any compensation of loss of office for senior officers and any exit package in excess of £100k.	n/a	See left
Specific materiality: Members' allowances and expenses	n/a	36

Group audit approach

Significant risks

As a reminder, the significant risks set out in our Audit Strategy Memorandum for 2021/22 were as follows:

- Group and Council. Management override of controls (inherent risk for all entities);
- Council only Valuation of Property, Plant & Equipment (PPE);
- Group and Council. Valuation of the net defined benefits liability (pensions); and

Our updated assessment, based on the draft 2021/22 financial statements, is that these risks remain appropriate, with the pensions significant risk also applying to the Group audit, as well as a new risk based on our assessment, in respect of accounting for the leisure staff transferring to Brimhams, as set out below.

New significant risk based upon our updated risk assessment

Description	Fraud	Error	Judgement	Planned response
Accounting for leisure staff transferring to Brimhams' Active from 1/8/2021 as well as the subsequent accounting treatment in the Council and Group's financial statements.	○	●	●	We will: <ul style="list-style-type: none">• critically evaluate how the Council has accounted for transfer out of the leisure staff, in particular the underlying net pensions liability, considering underlying guidance and accounting standards;• review the Actuary's report to gain assurance that 'gain on settlement' for the pensions liabilities of the transferred leisure staff is appropriately reflected in the Council and Group's financial statements; and• review the accuracy and completeness of any disclosures.

02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	Audit Committees Practical Guidance for local authorities and police	Guidance and resources for audit committee members.
National Audit Office (NAO)		
2	Introducing Integrated Care Systems (ICS): joining up local services to improve health outcomes	Assessment of the 'starting point' for ICSs and the challenges and opportunities ahead.
Financial Reporting Council		
3	Major Local Audits – Audit Quality Inspection	The Financial Reporting Council has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 2020/21 audit cycle.
Public Sector Audit Appointments Ltd		
4	Publication of scale fees for 2022/23	Publication of scale fees for the 2022/23 audit

NATIONAL PUBLICATIONS

CIPFA

1. CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition – October 2022

The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.

The link to the publication is here: <https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

NATIONAL PUBLICATIONS

NATIONAL AUDIT OFFICE (NAO)

2. Introducing Integrated Care Systems: joining up local services to improve health outcomes, October 2022

The introduction of Integrated Care Systems in July 2022 marks another significant reorganisation in the way health services are planned, paid for, and delivered. The statutory Integrated Care Boards and Integrated Care Partnerships that form these systems are broadly welcomed by local service leaders. The NHS Long Term Plan, published a year before the COVID-19 pandemic, sought to join-up local services and grant more local autonomy to design services and invest in prevention to improve people's health and tackle the pressure on the NHS.

The COVID-19 pandemic has put health and care services at every level under enormous pressure, and significantly increased the backlog of people waiting for treatment, care or support. The health and care system now needs to address these immediate pressures alongside its longer-term objectives.

At present, the inherent tension between meeting national targets and addressing local needs, the challenging financial savings targets, the longstanding workforce issues and wider pressures on the system, particularly social care, mean that there is a high risk that ICSs will find it challenging to fulfil the high hopes many stakeholders have for them. To address these risks, DHSC and NHSE will as a first step need to clarify what a realistic set of medium-term objectives looks like under current circumstances, building on the work done on core NHS objectives to ensure ICSs can make progress on prevention and local priorities.

NHSE and DHSC also need to tackle those pressures on ICSs that require national-level strategies and solutions, including workforce shortages, NHS financial sustainability and pressures on social care. ICSs need the time and capacity to build relationships and work together to design services that better meet local needs. If DHSC, NHSE and partners can address these challenges, then ICSs could bring real improvements in the longstanding challenge of bringing health, social care and other services together with the ultimate aim of improving the health and well-being of the populations they serve.

<https://www.nao.org.uk/reports/introducing-integrated-care-systems-joining-up-local-services-to-improve-health-outcomes/>

NATIONAL PUBLICATIONS

FINANCIAL REPORTING COUNCIL

3. Major Local Audits – Audit Quality Inspection – October 2022

The Financial Reporting Council (FRC) has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 2020/21 audit cycle.

The headlines from the FRC report are that:

- The number of audits categorised as good or limited improvements required has remained consistent with the prior year. FRC assessed 70% of financial statements audits as requiring no more than limited improvements, the same as in the previous year. This is an improvement on the 46% average over the preceding three years. However, FRC identified the increased number of audits assessed as requiring significant improvements (15% in 2021/22 and none in 2020/21) as unacceptable and states that inconsistency is preventing firms from eradicating poor quality audits.
- Based on their inspections, FRC state that the quality of auditors' work on VfM arrangements remains high at all but one firm. Of the work inspected, 93% was categorised as good or limited improvements required (100% in the previous two years).

FRC is concerned at the timeliness of reporting in the sector and raises this as a priority improvement area for audited bodies and auditors.

<https://www.frc.org.uk/getattachment/aeb9149f-7bf9-45f2-802d-ca7b055b457e/Major-Local-Audits.pdf>

NATIONAL PUBLICATIONS

PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA)

4. Publication of scale fees for 2022/23, November 2022

PSAA has published the 2022/23 audit fee scale, following consultation.

The fee scale applies for the audit work to be undertaken by appointed auditors in respect of the 2022/23 financial statements at relevant principal authorities that have opted into PSAA's national auditor appointment arrangements for the period 2018/19 to 2022/23. Under the Local Audit (Appointing Person) Regulations 2015, the 2022/23 fee scale must be published by 30 November 2022.

The consultation on the 2022/23 fee scale explained the impact on audit fees of the significant tensions and pressures in the wider audit market and profession, and of evolving arrangements in the local audit system.

The fee scale uses the fee scale set for 2021/22 audits as a baseline, with adjustments for:

- recurrent fee variations for 2019/20 and 2020/21 audits, for audited bodies where these have been submitted to PSAA and approved; and
- the 5.2% inflationary increase required under PSAA's current audit contracts, although this will be funded from the surplus which would otherwise be distributed to opted-in bodies.

Many of the issues raised in response to the consultation are complex and typically extend beyond PSAA's remit. PSAA has highlighted the need for urgent action to reform the local audit system in England, in response to the pressures and market fragility of recent years. PSAA has publicly stated our view that radical changes are needed in the local audit system to achieve a more proportionate audit and a more sustainable audit system.

<https://www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

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