Arun District Council
Outline Audit Plan

Year ended 31 March 2022

July 2022

Building a better working world

Members of the Audit & Governance Committee
Arun District Council
Maltravers Road
Littlehampton
West Sussex
BN17 5LF

4 July 2022

Dear Audit & Governance Committee Members

Outline Audit Plan

We are pleased to attach our Outline Audit Plan.

Its purpose is to provide the Audit Committee with an overview of our plans and fee for the 2021/22 audit. Due to the timing of our audit for the year, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee following completion of our planning procedures, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

This report is intended solely for the information and use of the Audit & Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28th July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Kevin Suter

For and on behalf of Ernst & Young LLP

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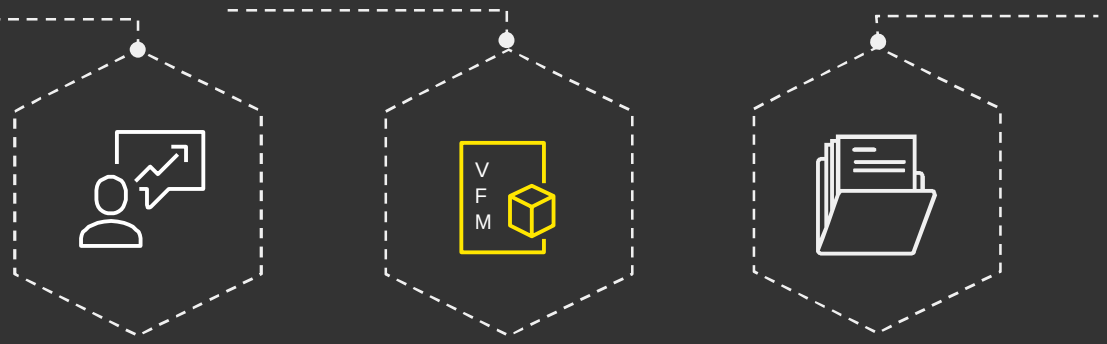

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Governance Committee and management of Arun District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Arun District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Arun District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 2021/22 Audit

2021/22 Audit

2021/22 financial statements audit

Planning for 2021/22

We have met the Chief Executive and the Group Head of Corporate Support in March 2022 to discuss the conclusion of our 2020/21 audit. We are currently organising our initial planning for the 2021/22 audit. This will incorporate learning from the 2020/21 audit.

For 2021/22, the timetable as amended in the Department for Levelling Up, Housing and Communities paper titled "Measures to improve local audit delays" published in December 2021 extends the publication date for audited local authority accounts from 31 July to 30 November.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses.

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

DLUHC

The DLUHC paper published in December 2021 recognises that challenges remain around the timeliness of local audit, which was one of the key issues highlighted in the Redmond review. As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays. These include:

- Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely.
- Increasing workload and regulatory pressure on auditors. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work.

In addition to the challenges faced by auditors, in the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. The paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market. These commitments are set out in Appendix A.

CIPFA/LASAAC

Following an exceptional consultation by CIPFA/LASAAC on time limited changes to the 2021/22 and the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom, a decision has been made to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023.

Materiality

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.

We set our planning materiality for the Council at £2.015m, which is based on 2% of gross revenue expenditure reported in the 2020/21 accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We will report to the Committee all audit differences in excess of £0.101m.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Risk of fraud in revenue recognition – inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	Property, Plant and Equipment Land and Buildings (L&B) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Overview of our 2021/22 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

2020/21 issues no longer assessed as risks for 2021/22.

The following items appeared in our 2020/21 audit plan, and are no longer assessed as risks for our 2021/22 audit:

- Accounting for Covid-19 related government grants
    - This was assessed to be an inherent risk in the prior year due to the first year of accounting for the Covid-19 related grants. Following our completion of testing in 2020/21, where we were satisfied with the recording of Covid-19 related grants in the accounts, we consider the risk of material misstatement in this area to be sufficiently reduced.

02 Value for Money

Value for money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

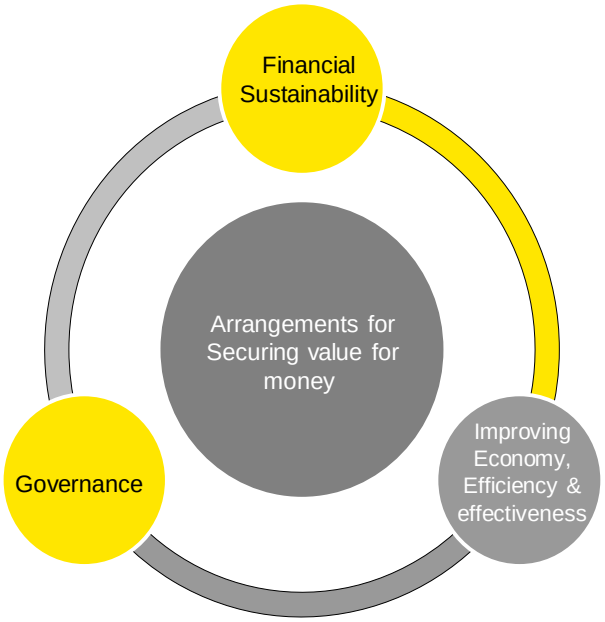
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the Code

Under the 2020 Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure they can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- 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.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's Annual Governance Statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted and CQC) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we are required to refer to this by exception in the audit report on the financial statements.

We are also required to include the commentary on arrangements in our Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our work

We have not yet started our value for money procedures for 2021/22. A full update following completion of our planning work will be included within our detailed audit plan. Based on our work in the previous year, and our current understanding of the circumstances of the Council, we have not currently identified any issues that indicate a significant risk.

03 Fees

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the Department for Levelling Up, Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Submitted fee 2020/21	Planned fee 2020/21
	£	£	£
PSAA Scale Fee	43,969	43,969	43,969
Total agreed fees:	43,969	43,969	43,969
Scale fee rebasing (Note 1)	30,158	30,158	25,226
Scale Fee Variation (Note 2)	TBC	10,306	-
Total proposed audit fees	TBC	84,433	69,195
Non Audit Fees – HBAP	22,379	22,379	

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Authority; and
- The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

The table sets out our current expected fees for 2021/22, and the comparator for 2020/21.

The 2020/21 fee was reported in our Auditors Annual Report, and has been submitted to the PSAA for approval following discussion with officers. We will update the committee when PSAA determine the fee.

(1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £30,158, as per our 2020/21 Auditor's Annual Report. The PSAA is yet to conclude on the level of scale fee rebasing.

(2) Any SFV for matters specific to 2021/22 will be discussed with officers should they arise from the detailed planning and execution of our audit. We have not currently included any assumptions on the ongoing impact of the 2020 Code of Audit Practice and ISA540 (estimates) that were included in the 20/21 fee variation and have an recurring impact.

04 Appendices

Department for Levelling Up, Housing and Communities - Measures to improve local audit delays

The following commitments are made within the Department for Levelling Up, Housing and Communities paper titled- Measures to improve local audit delays:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts.;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and,
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.