Hinckley and Bosworth Borough Council

External audit plan - DRAFT

Year ended 31 March 2025

April 2025

Contents

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Executive summary

Scope

This plan sets out our strategy for the external audit of Hinckley and Bosworth Borough Council for 2024/25, including our approach to building back assurance following the disclaimed audit opinions issued in 2020/21, 2021/22, 2022/23 and 2023/24.

Approach

Key areas of audit focus in 2024/25 will be:

- Auditing the 2024/25 Statement of Accounts in all areas where assurance can be carried forward to future years.
- “Build back” work in the following areas:
  - A risk assessment from the last clean audit opinion (2019/20) to date to inform our work.
  - Testing of transactions from 2020/21 onwards making up the property plant and equipment values in the accounts, including:
    - Additions
    - Disposals
    - Reclassifications
    - Depreciation.
- Value for money audit and all other work prescribed by the NAO Code of Audit Practice.

As previously communicated, we do not expect to be able to build back all the missing assurances from previous years during 2024/25. Our 2024/25 audit opinion is therefore likely to be disclaimed. There remains a level of uncertainty on the approach to the build back work, as a regulator-approved sector-wide approach is yet to be agreed. However, we are confident that the planned approach outlined above and described in this report represents the minimum work that will be required to start the build back process, and we are keen to progress this as soon as possible to limit further disclaimed audit opinions.

Reporting to the Audit committee

We will present regular written and oral reports to the Audit Committee throughout the year summarising progress on the current year audit and the build back work. We will provide a draft Auditor’s Annual Report by 30 November 2025 and we will issue our “opinion” on the Statement of Accounts by the backstop date of 27 February 2026.

The build-back work is not covered by our normal audit fee and is therefore subject to an additional fee.

Purpose and responsibilities

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Hinckley and Bosworth Borough Council (‘the Council’) for the year ended 31 March 2025.

The core elements of our work include:

- An audit of the 2024/25 Statement of Accounts;
- Build back work to recover from previously disclaimed audits; and
- An assessment of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources (our Value for Money work).

Auditor responsibilities

We have been appointed to perform an audit, in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing (ISAs) (UK). Our primary responsibility is to form and express an independent opinion on the Council’s financial statements, stating whether they provide a true and fair view and have been prepared properly in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the UK.

We are also required to:

- Report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is consistent with the financial statements;
- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report by exception any significant weaknesses identified in arrangements for securing value for money and a summary of associated recommendations;
- Report by exception on the use of our other statutory powers and duties; and
- Certify completion of our audit.

Under the Act we have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. These include:

- Reporting matters in the public interest;
- Making written recommendations to the Council;
- Making an application to the court for a declaration that an item of account is contrary to law;
- Issuing and advisory notice; or
- Making an application for judicial review.

Purpose and responsibilities

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

This planning letter has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Auditor responsibilities *(...continued)*

The Act also requires us to consider any objection made to the accounts and give any elector the opportunity to question us about the accounting records of the Council.

On completion of our audit work, we will issue an Audit Completion Report (prior to the approval of the financial statements), detailing our significant findings and other matters arising from the audit of the financial statements, together with an Auditor's Annual Report including our commentary on the value for money arrangements.

If we identify any significant adverse or unexpected findings that we conclude should be communicated, we will do so on a timely basis, either informally or in writing.

The audit does not relieve management or the Audit Committee of your responsibilities, including those in relation to the preparation of the financial statements.

Council responsibilities

The Council is responsible for:

- Preparing financial statements which give a true and fair view, in accordance with the applicable financial reporting framework and relevant legislation;
- Preparing and publishing, along with the financial statements, an annual governance statement and narrative report;
- Maintaining proper accounting records and preparing working papers to an acceptable professional standard that support the financial statements and related reports and disclosures; and
- Ensuring the proper financial stewardship of public funds and establishing effective arrangements for governance, propriety and regularity, including prevention and detection of fraud, reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Audit scope and general approach

General approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Council, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures which, in a normal year, are designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. We are unlikely to be able to obtain sufficient assurance in 2024/25 to reach this conclusion due to the previously disclaimed audits.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud, and respective responsibilities for preventing and detecting fraud.

Audit scope and general approach

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The basis for our assessment of materiality for the year is set out on page 17. Any identified errors greater than our clearly trivial amount of £56,300 will be recorded and discussed with you.

Accounting systems and internal controls

We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

Specialist skill or knowledge required to complete the audit

We will use audit specialists to assist us in our audit work in the following areas:

- The audit of the actuarial assumptions used in the calculation of the defined benefit pension liability/asset (from 2025/26 onwards).

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of the following systems:

- Civica Financials
- Active Directory

Audit scope and general approach

Significant changes in the financial reporting framework

There has been one significant change in the financial reporting framework this year. The new standard relating to IFRS 16 Leases, issued in January 2016, has now been mandated for implementation from 1 April 2024 within the 2024/25 CIPFA Code.

The most significant impact of IFRS 16 is to bring operating leases on balance sheet as right-of-use assets.

Significant changes in the Council's functions or activities

There have been no significant changes to the functions and activities of the Council or its structure.

Going concern

Management responsibility

Management is required to make and document an assessment of whether the Council is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management are also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Auditor responsibility

We are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the CIPFA Code and Practice Note 10 (PN10), which focusses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Related party transactions

During our initial audit planning you have informed us of the individuals and entities that you consider to be related parties. Please advise us of any changes as and when they arise.

Additional procedures for NAO

The National Audit Office (the 'NAO') issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years.

The NAO audit team for the Whole of Government Accounts (WGA) request us to undertake specific audit procedures to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether the Council has been selected by the NAO as a sampled component for 2024/25. This has not been confirmed.

We will comply with the instructions and report to the NAO in accordance with their requirements once instructions have been issued.

Building back assurance

Summary of why we are likely to issue a disclaimer of opinion in 2024/25

Given the Council's disclaimed audit opinions for the financial years 2020/21, 2021/22, 2022/23 and 2023/24, we are unlikely to be able to obtain sufficient assurance over the following in 2024/25:

1. Opening and closing balances in the financial statements (Balance Sheet), and
2. Reserves balances (which have come from the movements within the Statement of Comprehensive Income over the past four years).

We will be unable to provide a "clean" audit opinion to the Council until we have completed sufficient build back work to become comfortable over these balances and movements. This is likely to take a number of years due to capacity within our audit team and the Council's finance team. This situation is common across the local government sector, particularly where more than one previous year has been disclaimed.

As a result of the approach we adopted in 2023/24, we have gained an understanding of the Council's systems, processes, controls and arrangements for the preparation of the financial statements and have gathered information to inform the process of rebuilding assurance in this and future years.

We have developed an end-to-end build-back recovery plan for disclaimed audits, as set out on the following pages.

Further background regarding disclaimed audits in the local government landscape is set out in Appendix I.

Building back assurance

Our build back approach

Our approach comprises three distinct phases with the ultimate objective of returning to unmodified opinions as quickly as possible.

Phase	Planned work	Timing	Included in scale fee?
1	Undertake the normal 'in-year' audit. This will provide sufficient assurance over some closing balances and most in-year movements.	Annually	Yes
2	Undertake 'build-back' testing back to the last clean opinion for specified balance sheet items where full assurance over the closing balance cannot be obtained without opening assurance.	To be agreed with Council	No (this will incur additional cost)
3	Undertake work on prior-year disclaimed income and expenditure entries and reserve movements back to the last clean opinion (subject to Sandbox discussions).	To be agreed with Council	No (this will incur additional cost)

One of the contributing factors to the existing backlog of opinions was insufficient capacity across audit suppliers and, in some cases, within council finance teams. These capacity constraints continue. It is therefore not possible to rebuild all assurance within a one-year period, as recognised in the announcements from MHCLG and guidance from NAO and FRC.

In terms of the work required under phases 2 and 3 – which could be considerable – we will discuss with management the appropriate timing for such work.

2024/25 planned work

For 2024/25 we anticipate there will be sufficient capacity to undertake:

- Phase 1 (2024/25 audit) and;
- Some elements of phase 2. We are anticipating these to be:
    - A risk assessment of the control environment from the last clean opinion (2019/20) to date to inform our work.
    - Testing of transactions within property, plant and equipment balances from 2020/21 onwards, covering:
        - Additions
        - Disposals
        - Depreciation
        - Reclassifications.

The remainder of the indicative build back plan (phase 2 and phase 3) will fall into future years.

Building back assurance

Phase 1: the ‘in-year’ audit and accretion of evidence to future years

In 2024/25 and future years, our ‘in-year’ audit is likely to provide sufficient assurance over some balances but not others. The table below sets out, in the first line, the areas where we are likely to obtain sufficient assurance from the in-year audit, and, in the second line, the areas where only some assurance can be obtained from the in-year audit because of the long-term, accumulated nature of those balances.

Auditor Conclusion	Likely applicable balances
Sufficient assurance gained over the closing balance (i.e. closing balance is not inherently tied to the opening position).	• Other land and buildings valuation (following next full valuation in 2024/25) • Pension liabilities (following next triennial valuation in 2025/56) • Investments • Debtors • Creditors • Cash and cash equivalents • Borrowing
Some assurance gained in-year but **lack of opening assurance** means the closing balance cannot be fully assured and remains disclaimed.	• Property plant and equipment • Long term debtors • Long term creditors • Long term lease liabilities • Provisions • All reserves

The items in the first line will be rolled forward and accreted into future years’ audits. No retrospective build back should be required for these items of account, but it will take a minimum of three years for the items in this first category to be fully assured across three years of closing balances. In the case of pension liabilities, this cannot start until 2025/26 when the next triennial valuation report is due to be published.

The items in the second line will need further work to obtain sufficient assurance, which form phases 2 and 3 of the build-back approach.

Building back assurance

Phase 2: build-back for specified balance sheet items where the closing position is inherently tied to the opening position

These closing balances can only be assured by undertaking work in the disclaimed years, back to the last clean opinion.

In 2024/25, we will recover assurances on property, plant and equipment - additions, disposals, depreciation and reclassifications.

We propose to recover assurances on long term debtors, creditors, lease liabilities and provisions in 2025/26 or a future year.

We do not, at this stage, have a proposal to rebuild any assurance for reserve balances over the disclaimed years due to the very high volume of income and expenditure transactions and other reserve movements which make up these balances. This is considered further in Phase 3.

Phase 3: build-back on prior year disclaimed reserve balances back to the last clean opinion

The approach to this is being discussed by all firms within the ‘Sandbox’. Firms, including Azets, will only use this approach if it is endorsed by the FRC and/or MHCLG.

If it is endorsed, we will employ the ‘Sandbox’ approach back to the last clean opinion to gain full assurance over prior years’ CIES and reserves movements and, thereby re-build assurance on the closing general fund, earmarked reserves and unusable reserves, as well as over the Council’s Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP). This may involve selective substantive testing of income and expenditure transactions within disclaimed years.

If the ‘Sandbox’ approach is not endorsed, we may need to undertake detailed income and expenditure testing in each previously disclaimed year, which would require substantial audit and finance team input.

Build-back plan

Item of account	Build back of specified closing balances – Phase 1: 2024/25	2025/26	2026/27	2027/28	Recovery of closing balances – Phase 2 (year and timing to be agreed with management)	Recovery of reserves – Phase 3 (year and timing to be agreed with management)	Included in scale fee?
Income in-year *(fees and charges, taxation, grants, other income)*	Yes	Yes	Yes	Yes			Yes
Expenditure in-year *(payroll, operating expenditure, other expenditure)*	Yes	Yes	Yes	Yes			Yes
Other land and buildings valuation, council dwellings valuation	Yes	Yes	Yes	Yes			Yes
Closing balances not inherently tied to the opening balance *(includes Investment properties, investments, debtors, creditors, cash and cash equivalents, borrowing)*	Yes	Yes	Yes	Yes			Yes
Pension liabilities *(following triennial valuation in 2025/26)*	No	Yes	Yes	Yes			Yes
Reserves and reserves movements in-year *(general fund, earmarked reserves, unusable reserves, CFR, MRP, in-year income and expenditure)*	Yes	Yes	Yes	Yes			Yes
Cash flow statement in-year	Yes	Yes	Yes	Yes			Yes
Collection fund in-year	Yes	Yes	Yes	Yes			Yes
Cash flow statement and related notes full assurance	Yes	Yes	Yes	Yes			Yes
PPE closing balances *(recovery of additions, disposals, depreciation and other capital movements)*	No	No	No	No	Yes (planned in 2024/25)	No	No
Closing balances inherently tied to the opening balances where prior year recovery is required *(Long term debtors, long term creditors, long term lease liabilities, provisions)*	No	No	No	No	Yes (in future years)	No	No
Collection fund surplus	No	No	No	No	Yes (in future years)	No	No
Reserves and reserves movements full assurance *(general fund, earmarked reserves, unusable reserves, CFR, MRP, disclaimed year income and expenditure)*	No	No	No	No	No	Yes (in future years)	No

Anticipated audit reports by year

Year	Assurance gained								Anticipated audit report
	Closing balances	Comparator closing balances	Comparator opening balances	Pensions IAS19 closing balance	Pensions IAS19 comparator closing balance	Pensions IAS19 comparator opening balance	Closing balances inherently tied to the opening balance	Reserves	
2024/25	✓	X	X	X	X	X	X	X	**Disclaimer**
2025/26	✓	✓	X	✓	X	X	X	X	**Disclaimer**
2026/27	✓	✓	✓	✓	✓	X	X	X	**Disclaimer**
2027/28 *(phase 1 only)*	✓	✓	✓	✓	✓	✓	X	X	**Disclaimer**
2027/28 * *(phase 1 and 2 only)*	✓	✓	✓	✓	✓	✓	✓	X	**Disclaimer/ qualified**
2027/28 * *(phase 1, 2 and 3)*	✓	✓	✓	✓	✓	✓	✓	✓	**Clean**

** Phase 2 (recovery of assurance back to the last clean opinion) and Phase 3 (recovery of general fund and reserves assurance) may be undertaken earlier than 2027/28 should there be sufficient capacity within the audit team and finance team, and subject to agreement of cost for this additional work.*

Financial statements audit timeline

Dec - Feb	Feb - Mar	31 March 2025	From July	Nov 2025 – Feb 2026	Jan 2026	By 27 Feb 2026
Planning	Interim	**Period end: 31 March**	Final accounts	**Audit Committee**	Completion	**Sign off**

Planning

- Identify changes in your business environment
- Determine materiality
- Scope the audit
- Risk assessment
- Planning meetings with management
- Planning requirements checklist to management
- Issue audit plan

Interim

- Document design control and effectiveness
- Discuss audit plan with audit committee
- Early testing

Final accounts

- Regular updates with management
- Completion of all audit testing
- Conclude on significant risk areas
- Report observations on other risk areas, management judgements
- Draft Audit Completion report
- Discuss with management

Audit Committee

- Issue draft Auditor's Annual Report by 30 Nov 2025
- Discuss audit findings with Audit Committee

Completion

- Subsequent events procedures
- Management representation letter
- Sign financial statements

Sign off

- Sign auditor's report
- Issue delayed certificate

Materiality

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and the needs of the users. When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, reflecting any relevant new information.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report any uncorrected misstatements of lower value errors that we identify, other than those which are 'clearly trivial'.

Our assessment, at the planning stage, of materiality and the trivial reporting threshold is as follows:

	Council £	Explanation
Overall materiality for the financial statements	1,127,000	Our initial assessment is based on approximately 1.75% of gross revenue expenditure as disclosed in the 2023/24 annual report and accounts. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Council. The financial statements are considered to be materially misstated where total errors exceed this value.
Performance materiality	732,000	65% of materiality. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial threshold	56,300	5% of overall materiality for the Council. Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Individual errors above this threshold are communicated to those charged with governance.

Significant risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required by auditing standards to be treated as significant risks, for example in relation to management override of internal controls.

Significant risks at the financial statement level

The risks below are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Management override of controls Auditing standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. **Risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council's journals policy; • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Prior year opinion on the financial statements Following the statutory backstops in December 2024 and February 2025, disclaimed audit opinions have been issued on the Council's accounts for 2020/21, 2021/22, 2022/23 and 2023/24. As a result of prior year disclaimed audit opinions: • There is limited assurance available over the Council's opening balances, including those balances which involve higher levels of management judgement and more complex estimation techniques (e.g defined benefit pension valuations, land and building, council dwelling and investment property valuations, amongst others); and • Significant transactions, accounting treatment and management judgements may not have been subject to audits for one or more years – or at all. This may include management judgements and accounting treatment in respect of significant or complex schemes or transactions which came into effect during the qualified or disclaimed period/s. The absence of prior year assurance raises a significant risk of material misstatement at the financial statement level that may require additional audit procedures. **Inherent risk of material misstatement:** • **Prior year opinion on the financial statements (financial statement level): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Considering the findings and outcomes of prior year audits and their impact on the 2024/25 audit; • Considering the impact on our audit of qualified or disclaimed audit opinions, particularly regarding opening balances and 'unaudited' transactions and management judgements made in the previous years which continue into 2024/25; and • Considering the impact of any changes in Code requirements for financial reporting in previous and current audit years. • Carrying out a risk assessment of the period from the start of 2020/21 to date; • Commencing build back work for PPE additions, disposals, reclassifications and depreciation for 2020/21, 2021/22, 2022/23 and 2023/24.

Significant risks of material misstatement

Significant risks at the assertion level for classes of transaction, account balances and disclosure

Identified risk	Planned audit procedures
Valuation of council dwellings, other land and buildings (key accounting estimate) Revaluation of council dwellings and other land and buildings should be performed with sufficient regularity so that carrying amounts are not materially misstated. It is our understanding that the Council undertakes this annually. Council dwellings are valued using the beacon method, which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. A discount factor is applied to reflect the lower rent yield from social housing compared to market rates. Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS) to undertake these valuations as of 31 March 2025. The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates. These valuations represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of council dwellings and other land and buildings as a significant risk. **Inherent risk of material misstatement:** **Council dwellings and other land and buildings (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of management's valuation expert; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. We will consider whether we require an auditor's expert; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct; and • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of the defined pension fund net liability/asset (key accounting estimate) An actuarial estimate of the net defined pension liability/asset is calculated on an annual basis under IAS 19 ‘Employee Benefits’, and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code. The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset (where relevant). ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates. This represents a key accounting estimate made by management within the financial statements due to the size of the values involves, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk. **Inherent risk of material misstatement:** **Defined pension fund net liability/asset (valuation): High**	In 2024/25, we will not carry out any work on this significant risk area due to the lack of prior year assurance available relating to the current triennial valuation. We will re-commence work on the pension fund in 2025/26 by which time the next triennial valuation will have been performed. From 2025/26, procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating managements processes for the calculation of the estimate, the instructions issued to management’s expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditors’ expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council’s share of the investment valuations in the audited pension fund accounts’ and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Implementation of IFRS 16 (key accounting estimate) IFRS 16 was adopted and implemented by local government bodies under the CIPFA Code from 1 April 2024. Under IFRS 16 a lessee is required to recognise a right of use asset and associated lease liability in its balance sheet. This will result in significant changes to the accounting for leased assets and the associated disclosures within the financial statements for the year ended 31 March 2025. The implementation of this new accounting standard also represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement upon recognition of the right of use asset and associated lease liability. We have therefore identified the implementation of IFRS 16 as a significant risk. **Inherent risk of material misstatement:** **Implementation of IFRS 16 (ROU asset/liability valuation; completeness): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Perform a walkthrough of the council's systems and processes to capture the data required to account for right of use lease assets and associated liability in accordance with IFRS 16; • Review the council's accounting policies for the year ended 31 March 2025 to reflect the requirements of the new accounting standard; • Assess the existence, valuation, accuracy and completeness of the right of use assets and associates lease liabilities, and the related disclosures within the financial statements; • Evaluate whether right of use assets and lease liabilities have been appropriately remeasured in line with the requirements of IFRS 16 as set out in the CIPFA Code.

Other risks of material misstatement

Other identified risks

Other identified risks are those which, although not considered to be significant, will require specific consideration during the audit.

We have not identified any to report to you.

Other material balances and transactions

Under International Standards on Auditing, “irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure”. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks highlighted in this report.

Value for money

Under the Code of Audit Practice, we must satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to here as “Value for Money”, or “VFM”).

NAO Auditor Guidance Note 03 ‘Auditors’ Work on Value for Money Arrangements’ (AGN 03) requires us to provide an annual commentary on arrangements, which will be published as part of the Auditor’s Annual Report. Such commentary will highlight any significant weaknesses in arrangements, along with recommendations for improvements.

When reporting on such arrangements, the Code of Practice requires us to structure our commentary under three specified reporting criteria:

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 properly 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

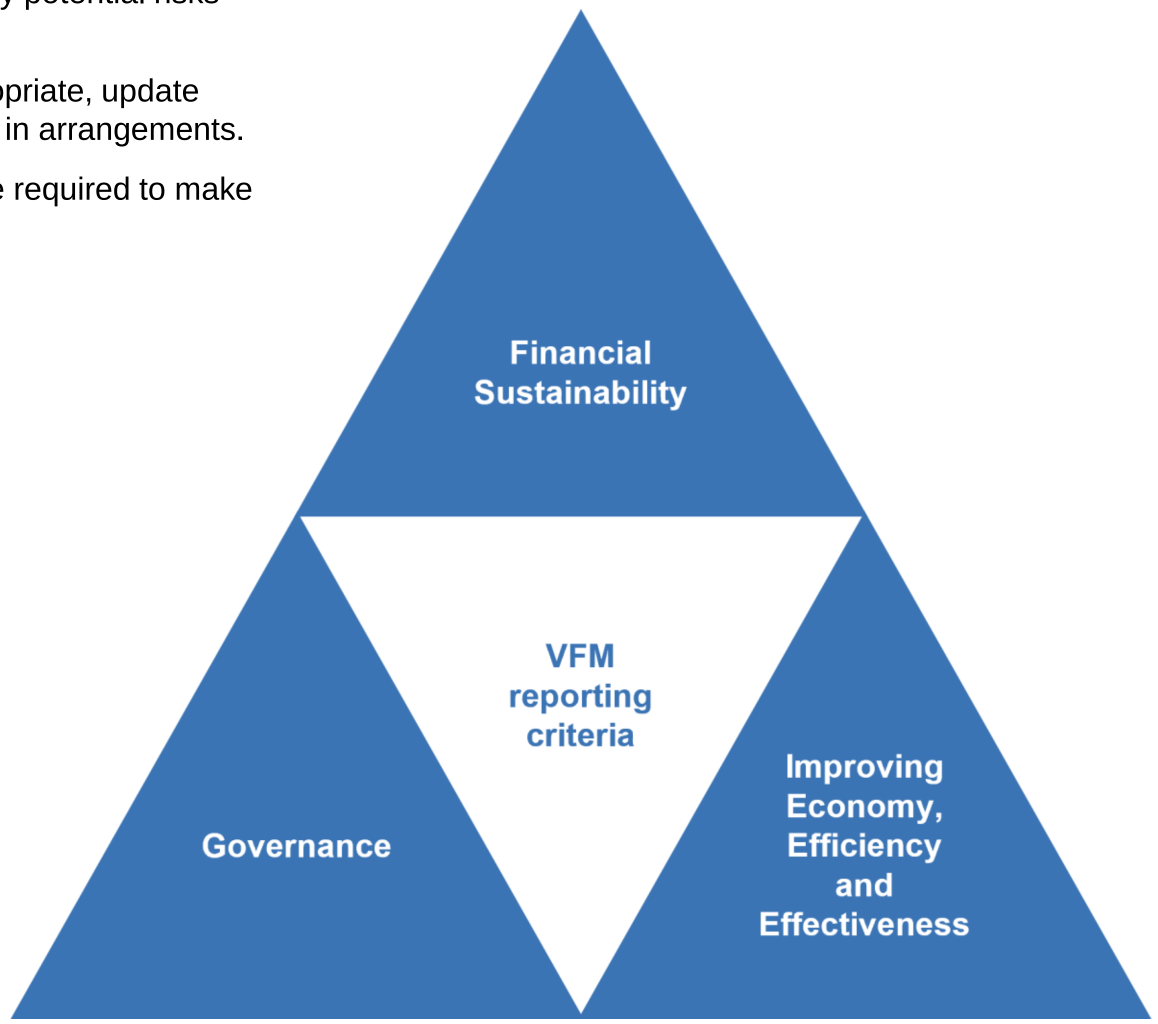
Value for Money

As part of the audit planning process, we are required to perform procedures to identify potential risks of significant weaknesses in the Council's arrangements to secure VFM.

We are required to re-evaluate this risk assessment during the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

Where we identify significant weaknesses in arrangements as part of our work, we are required to make recommendations setting out:

- Our judgement on the nature of the weakness identified;
- The evidence on which our view is based;
- The impact on the Council; and
- The action the Council needs to take to address the weakness.



Value for Money

Risks of significant weakness in VFM arrangements

We have carried out an initial risk assessment to identify any risks of significant weakness in respect of the three specific VFM areas, using the guidance contained in AGN 03. A significant weakness is a risk requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

We will re-evaluate this risk assessment during the audit and, where appropriate, update our work to reflect emerging risks or findings.

When considering the Council's arrangements, we will have regard to the three reporting criteria set out in AGN03, as well as performing additional work in the areas identified below which are the potential areas of significant weaknesses, we have identified at the planning stage.

Criteria	Potential risk of significant weakness	Our risk based procedures and evaluation approach includes (but is not limited to)
Financial sustainability	None identified at planning.	We have not at this stage identified any risks of significant weakness that requires specific audit procedures, however we have identified this as an area of focus for detailed follow-up in fieldwork stage. This includes reviewing how management identify savings plans and how any financial resilience risks are identified and managed due to the ongoing uncertainty of the financial environment the Council operates in.
Governance	We will roll forward the significant weakness in governance arrangements identified from our 2023/24 audit.	We will review progress against the Audit Committee action plan and our recommendation included in the 2023/24 Auditor's Annual Report.
Improving economy, efficiency and effectiveness	None identified at planning.	We have not at this stage identified any risks of significant weakness that require specific audit procedures, however we have identified this as an area of focus for detailed follow up in fieldwork stage. This includes review of the IT service redesign following the departure of Blaby Council, and the culture of responding to internal audit reports and recommendations by management.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

Audit team and logistics

Your audit team

Role	Name	Contact details
Key Audit Partner	Chris Brown	Chris.Brown@azets.co.uk
Engagement Manager	Helen Parks	Helen.Parks@azets.co.uk
In-charge auditor	Michaela Opoku Asare	Michaela.Opoku.Asare@azets.co.uk

Timetable

Event	Date
Planning and risk assessment	March 2025
Reporting of plan to Audit Committee	June 2025
Interim audit	March - April 2025
Publication of draft accounts	30 June 2025
Year end audit	Sept - Oct 2025
Audit Completion Report	TBC
Draft Auditor's Annual Report	30 Nov 2025
Target date of approval of accounts	TBC
Accounts publication deadline (as specified in the Accounts and Audit (Amendment) Regulations 2024)	27 February 2026

Our expectations and requirements

For us to be able to deliver the audit in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Narrative Statement and the Annual Governance Statement;
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit;
- Prompt and sufficient responses to audit queries within two working days (unless otherwise agreed) to minimise delays.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that the audit team and the Council's finance team work closely together to achieve this timetable.

Independence, objectivity and other services provided

Auditor independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have also complied with the NAO's Auditor Guidance Note 01, which contains supplementary guidance on ethical requirements for auditors of local public bodies. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which impair our independence.

Other services

We have detailed in the table below any other services provided to the Council, the threats to our independence these present and the safeguards we have put in place to mitigate these threats.

Service	Fee	Safeguards to mitigate threats to independence
Audit related: Certification of Housing Benefit Assurance Process (HBAP) claim (2024/25)	£28,000 (plus £2,000 for each additional workbook)	**Self-interest:** Given this is likely to be a recurring fee, we consider a threat present. However, the fee is not significant to Azets Audit Services or the Council. The fee is fixed and is not contingent in nature. **Self-review**: Whilst housing benefit revenue and expenditure streams are within the financial statements, we do not complete the claim form. The focus of our work is solely testing the data in the claim form prepared by management. **Management:** As above, the claim form is completed by management and any adjustments or amendments identified to the form during the certification work are discussed and agreed by management prior to submission of the certification report. We therefore consider these risks sufficiently mitigated.
Audit related: Certification of pooling of Housing Capital Receipts return	£10,000	**Self-interest:** Given this is likely to be a recurring fee, we consider a threat present. The fee is not significant to Azets Audit Services or the Council. The fee is fixed and not contingent in nature. **Self-review**: Whilst HRA right-to-buy proceeds are included within the financial statements, we do not complete the claim form. The focus of our work is solely testing the data in the claim form prepared by management. **Management:** the claim form is completed by management and any adjustments or amendments identified to the form during the certification work are discussed and agreed by management prior to submission of the certification report. We therefore consider these risks sufficiently mitigated.

Fees

PSAA set a fee scale for each audit that assumes the audited body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. This fee scale is reviewed by PSAA each year and adjusted, if necessary, based on auditors' experience, new requirements, or significant changes to the audited body. The fee may be varied above the fee scale to reflect the circumstances and local risks within the audited body.

Our estimated fee (excluding VAT) is as follows. This fee is estimated based on our understanding at this point in time and that our expectations set out in this plan are met.

Audit fee	2024/25 £
Scale fee: base fee for the audit of the Council's financial statements (as set out in the fee scales issued by PSAA)	158,656
IFRS16: work needed to audit the new standard. PSAA have confirmed this work is not included in the above scale fee	TBC
Disclaimer work (**note 1**)	TBC
Build back work (**note 2**)	TBC
Total audit fee	**TBC**

It is our policy to seek fee variations for overruns or scope extensions, for example where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work. Any such fee variations are subject to agreement by Public Sector Audit Appointments Ltd (PSAA).

We will bill the scale fee in quarterly instalments in line with billing milestones as set out in our contract with PSAA.

Total fees	2024/25 £
Audit of the Council (as to the left)	TBC
Non-audit related services Council for 2023/24 (per previous page)	38,000
Total fees	**TBC**

__Note 1__: this includes the additional annual work required to consider the disclaimed audits from prior years, development of revised approach for the Council in response to the missing assurance, the production, agreement and reporting of additional interim progress reports to management and the Audit Committee, the development and reporting of a revised 'Audit Completion Report' for reporting the additional considerations arising from the disclaimers, the drafting of a disclaimed audit report and the various risk, compliance and technical consultations arising as a result of this unique and unprecedented situation.

__Note 2__: this includes all work for phases 2 and 3 which require building back assurance to the last clean opinion

Appendix I: Building back assurance

Statutory backstop dates and disclaimed audits

Statutory Instrument (2024) No. 907 - "*The Accounts and Audit (Amendment) Regulations 2024*", imposed annual statutory backstop dates up to and including 2027/28 for the publication by the Council of its final Statement of Accounts. The Code of Audit Practice specifies that auditors are required to issue their auditor's report before these dates, even if planned audit procedures are not fully complete, so that local government bodies can comply with the statutory reporting deadline.

Statutory backstop dates

- 13 December 2024 Audits from 2015/16 to 2022/23
- 28 February 2025 2023/24 audit
- 27 February 2026 2024/25 audit
- 31 January 2027 2025/26 audit
- 30 November 2027 2026/27 audit
- 30 November 2028 2027/28 audit

The statutory backstops have resulted in the audits of the Council's accounts being disclaimed for 2020/21, 2021/22, 2022/23 and 2023/24. The last clean opinion, where the closing balances were assured by the auditor, was 2019/20. The closing balances as at 31 March 2020 are therefore our required starting point for building back assurance.

Building back assurance

Government's expectation is that auditors and councils build back assurance to enable, as soon as possible, the return to unmodified (clean) opinions. The recovery period has been designed to allow auditors to rebuild assurance for balances from disclaimed years over multiple audit cycles, reducing the risk of the backlog recurring. Because auditors will need to make prioritisation decisions to issue audit opinions ahead of the backstop dates, they may not be able to obtain sufficient evidence to support all balances nor all in-year and comparative expenditure, income, cash flow and reserves movements.

As a firm we have invested considerable resources in developing our overall response to the disclaimed periods of assurance, the impact this has on our audit responsibilities and what an indicative build-back plan may involve. Due to the complexities involved, our work has required substantially more input from senior members of the audit team than would normally be the case. PSAA has made clear that this additional work is over and above the annual scale fee.

Our planning takes into account the guidance contained in the Local Audit Reset and Recovery Implementation Guidance (LARRIG), numbers 1 to 5. LARRIGs are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG). LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England. The guidance in LARRIGs supports auditors in meeting their requirements under the Act and the Code of Audit Practice published by the NAO on behalf of the C&AG.

Building back assurance

Our planning also takes into account the guidance contained in the FRC's document Local Audit Backlog Rebuilding Assurance. Alongside the backlog measures, the Government has announced its intention to 'overhaul the local audit system.'

The FRC's guidance states: "*Recovery from the backlog is a shared endeavour between auditors and local bodies. Accounts preparers have a vital part to play, providing good quality draft financial statements supported by comprehensive working papers and supporting evidence to auditors. The success of these proposals relies on both auditors and accounts preparers working closely together to agree jointly-owned delivery plans for each year's audit. Chartered Institute of Public Finance and Accountancy (CIPFA) are responsible for the production of guidance to support accounts preparers*. *Audit Committees should ensure that they are planning and able to play their full part in the process*."

Elements of building back assurance are subject to detailed discussion within a cross-firm working group, also attended by the FRC, known as 'the Sandbox'. We will ensure our build-back approach is fully compliant with auditing standards and, where it relies on the eventual outcome of Sandbox discussions, we will only utilise this approach where it has been endorsed by MHCLG.

As part of our work in 2023/24, we began assessing what work, carried out in 2023/24, can be used to inform the process of rebuilding assurance in future years. Where work was able to be undertaken in 2023/24, we intend to accrete this work into this and future audit periods to inform the future building back of assurance.

We will follow this same approach in 2024/25 and in future years. The build-back approach will require us to apply a process of rebuilding assurance over all financial years for which disclaimers of opinion have been issued.

We have developed an indicative end-to-end build-back recovery plan for disclaimed audits, which is summarised on the next page.

Indicative assurance over build-back period

	Build back of specified closing balances through in-year audit				Recovery of closing balances	Recovery of reserves and CIES
	Phase 1				Phase 2 (year and timing to be agreed with management)	Phase 3 (year and timing to be agreed with management)
	2024/25	2025/26	2026/27	2027/28		
Assurance gained over specific balance sheet closing balances which are not inherently tied to the opening balance, EXCEPT FOR pensions IAS19 balance (Phase 1a)	Yes	Yes	Yes	Yes		
Assurance gained over specific balance sheet closing balances which are not inherently tied to the opening balance, INCLUDING pensions IAS19 balance (Phase 1b)	No	Yes	Yes	Yes		
Assurance gained over comparator closing balance for specific balance sheet items not inherently tied to the opening balance (Phase 1c)	No	No	Yes	Yes		
Assurance gained over comparator opening balance for specific balance sheet items not inherently tied to the opening balance (Phase 1d)	No	No	No	Yes		
Assurance gained over balance sheet balances which are inherently tied to the opening balance – current year closing, prior year closing, prior year opening (Phase 2)					Yes	N/A
Assurance gained over general fund, earmarked reserves, unusable reserves, collection fund surplus (Phase 3)					N/A	Yes
Full assurance gained for each phase?	No	No	No	Yes	Yes	Yes
Is missing assurance pervasive?	**Yes**	**Yes**	**Yes**	**Yes *(phase 1 obtained only)***	**Yes *(phase 1 and 2 obtained only)***	**No *(provided also have full phase 1 and 2)***
Anticipated opinion	**Disclaimer**	**Disclaimer**	**Disclaimer**	**Disclaimer**	**Disclaimer/ qualified**	**Clean**
Additional fee – disclaimer	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**No**
Additional fee – build back					**Yes**	**Yes**

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