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Hinckley & Bosworth
Borough Council

Bill Cullen MBA (ISM), BA(Hons) MRTPI
Chief Executive

Date: 22 November 2022

To: Members of the Audit Committee

Cllr DS Cope (Chairman)	Cllr MR Lay
Cllr A Pendlebury (Vice-Chairman)	Cllr RB Roberts
Cllr MA Cook	Cllr BR Walker
Cllr REH Flemming	Cllr HG Williams
Cllr L Hodgkins	Cllr P Williams
Cllr C Ladkin	

Copy to all other Members of the Council

(other recipients for information)

Dear member,

There will be a meeting of the **AUDIT COMMITTEE** in the De Montfort Suite, Hinckley Hub on **WEDNESDAY, 30 NOVEMBER 2022** at **6.30 pm** and your attendance is required.

The agenda for the meeting is set out overleaf.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Owen'.

Rebecca Owen
Democratic Services Manager

Fire Evacuation Procedures

- On hearing the fire alarm, leave the building **at once** quickly and calmly by the nearest escape route (indicated by green signs).
- *There are two escape routes from the Council Chamber – at the side and rear. Leave via the door closest to you.*
- Proceed to **Willowbank Road car park**, accessed from Rugby Road then Willowbank Road.
- **Do not** use the lifts.
- **Do not** stop to collect belongings.

Recording of meetings

At HBBC we are open and transparent about how we make decisions. We allow recording, filming and photography at all public meetings including Council, the Executive and Planning Committee as long as doing so does not disturb or disrupt the proceedings. There may occasionally be some reports that are discussed in private session where legislation requires this to happen, but this is infrequent.

We also allow the use of social media during meetings, which helps to bring the issues discussed to a wider audience.

Members of the public, members of the press and councillors are hereby informed that, in attending the meeting, you may be captured on film. If you have a particular problem with this, please contact us so we can discuss how we may accommodate you at the meeting.

Use of mobile phones

To minimise disturbance to others attending the meeting, please switch off your phone or other mobile device or turn it onto silent or vibrate mode.

Thank you

AUDIT COMMITTEE - 30 NOVEMBER 2022

A G E N D A

1. **APOLOGIES AND SUBSTITUTIONS**

2. **MINUTES OF PREVIOUS MEETING (Pages 1 - 2)**

To confirm the minutes of the meeting held on 5 October 2022.

3. **ADDITIONAL URGENT BUSINESS BY REASON OF SPECIAL CIRCUMSTANCES**

To be advised of any additional items of business which the Chairman decides by reason of special circumstances shall be taken as matters of urgency at this meeting (to be taken at the end of the agenda)

4. **DECLARATIONS OF INTEREST**

To receive verbally from members any disclosures which they are required to make in accordance with the Council's code of conduct or in pursuance of Section 106 of the Local Government Finance Act 1992. **This is in addition to the need for such disclosure to be also given when the relevant matter is reached on the agenda.**

5. **QUESTIONS**

To hear any questions received in accordance with Council Procedure Rule 12.

6. **INTERNAL AUDIT PROGRESS REPORT (Pages 3 - 8)**

To report on the summary of the 2021/22 Internal Audit Plan

7. **FINANCIAL REPORTING COUNCIL'S REVIEW OF EXTERNAL AUDIT QUALITY 2021/22 (Pages 9 - 14)**

To present to members a summary of quality reviews done by the FRC in relation to external Audit Suppliers, including the Council's own External Audit Supplier Ernst and Young (EY)

8. **NEW EXTERNAL AUDIT APPOINTMENT FROM 2023/24 TO 2027/28 (Pages 15 - 18)**

To notify members of the outcome of the External Audit appointment arrangements completed by Public Sector Audit Appointments (PSAA) on our behalf for the period spanning the audits from 2023/24 to 2027/28

9. **ANY OTHER ITEMS OF BUSINESS WHICH THE CHAIRMAN DECIDES HAVE TO BE DEALT WITH AS MATTERS OF URGENCY**

As announced under item 3 above.

10. **MATTERS FROM WHICH THE PUBLIC MAY BE EXCLUDED**

To consider the passing of a resolution under Section 100A(4) of the Local Government Act 1972 excluding the public from the undermentioned item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 and 10 of Schedule 12A of the 1972 Act.

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HINCKLEY AND BOSWORTH BOROUGH COUNCIL

AUDIT COMMITTEE

27 JULY 2022 AT 6.30 PM

PRESENT: Cllr DS Cope - Chairman
Cllr A Pendlebury – Vice-Chairman
Cllr MA Cook, Cllr REH Flemming, Cllr L Hodgkins, Cllr BR Walker,
Cllr HG Williams and Cllr P Williams

Officers in attendance: Ilyas Bham and Rebecca Valentine-Wilkinson

83. **Apologies and substitutions**

Apologies for absence were submitted on behalf of Councillors Ladkin and R Roberts.

84. **Minutes of previous meeting**

It was moved by Councillor Hodgkins, seconded by Councillor Flemming and

RESOLVED – the minutes of the meeting held on 6 July be confirmed and signed by the Chairman.

85. **Declarations of interest**

No interests were declared at this meeting.

86. **Unaudited Statement of Accounts Update 2021/22**

Members were updated on the draft financial statements that have to be ready for public inspection on or before 1 August 2022. It was confirmed that the unaudited statement would be published by 30 July 2022 and would be made available for public inspection.

At the time of drafting the report the statement was still being completed however the draft primary statements were attached to the report. It was confirmed that on completion the statements would be supplied to the external auditor (Ernst & Young) for them to complete their audit and report back to Audit Committee.

It was moved by Councillor Flemming, seconded by Councillor H Williams and

RESOLVED – the report be noted.

(The Meeting closed at 6.39 pm)

CHAIRMAN

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Hinckley & Bosworth BC

Audit Committee Internal Audit Progress Report

Prepared by: Mazars LLP
Date: November 2022

mazars

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- 02 Summary of the 2021/22 Internal Audit Plan

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Disclaimer

This report ("Report") was prepared by Mazars LLP at the request of Hinckley & Bosworth BC and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of the Hinckley & Bosworth BC and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in this report for further information about responsibilities, limitations and confidentiality.





Snapshot of Internal Audit Activity

Below is a snapshot of the current position of the delivery of the 2021/22 Internal Audit Plan.

Draft Reports Issued

We have issued the following draft reports since the last meeting of the Audit Committee:

- Responsive Repairs
- Accounts Payable
- Housing Rents

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Draft Reports Issued cont.

- Carbon Neutral Action Plan
- Payroll and Pensions Administration
- Council Tax and NNDR (Leicestershire Revenues & Benefits Partnership)

Other matters

In addition to the planned work, we have completed the sign off for the LAD Phase 2 Grant which needed to be completed by 23rd November.

Follow Up

We have followed up the outstanding recommendations raised in prior year audit reports. From 28 actions passed on from the previous auditors:

- 23 were fully implemented
- 5 are no longer relevant





Summary of the 2021/22 Internal Audit Plan

The table below lists the 2021/22 Internal Audit Plan and a status summary for all of the reviews.

Fieldwork commencing	Review	Days	Status	Assurance Level	Total	Findings		
						High	Medium	Low
August 2022	Accounts Payable	8	Draft Report Issued (Oct 2022)					
July 2022	Payroll & Pensions Administration	8	Draft Report Issued (Nov 2022)					
March 2023	IT Audit	10	Deferred into 2022/23 plan	N/A				
January 2023	Risk Management	10	Deferred into 2022/23 plan	N/A				
July 2022	Responsive Repairs	10	Draft Report Issued (Nov 2022)					
August 2022	Housing Rents	8	Draft Report Issued (Oct 2022)					
August 2022	Carbon Neutral Action Plan	6	Draft Report Issued (Nov 2022)					
July 2022	Council Tax & NNDR (Revenue and Benefits)	10	Draft Report Issued (Nov 2022)					
June 2022	Test and Trace Support Payment Scheme	4	Completed sign off in June 2022	N/A				
October 2022	Local Authority Delivery Scheme Phase 2 (LAD2)	4	Completed sign off in November 2022	N/A				

Totals

Contacts

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Sarah Knowles

Manager, Mazars

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We take responsibility to Hinckley & Bosworth BC for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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Hinckley & Bosworth Borough Council

Forward timetable of consultation and decision making

Audit Committee 30 November 2022

Wards affected: All Wards

FINANCIAL REPORTING COUNCIL'S REVIEW OF EXTERNAL AUDIT QUALITY 2021/2022

Report of Head of Finance (Section 151 Officer)

1. Purpose of report

- 1.1 To present to the Audit Committee a summary of quality reviews done by the FRC in relation to external Audit Suppliers, including the Council's own External Audit Supplier Ernst and Young (EY)

2. Recommendation

- 2.1 The report is noted

3. Background to the report

- 3.1 The Financial Reporting Council (FRC) is the designated the Competent Authority for audit regulation in the UK, and responsible for audit quality inspections. The report scores on a regular basis that are categorized as either:

- Good or limited improvements required
- Improvements required
- Significant improvements required

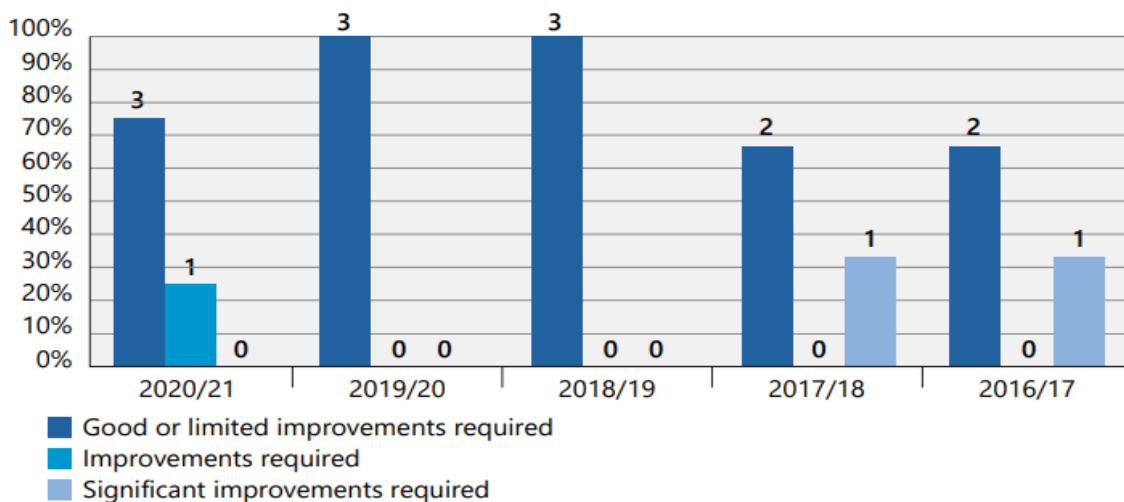
The first two categories are acceptable for the purposes of a safe opinion, the last can indicate a more fundamental problem. However, all should be in the top category.

- 3.2 The last FRC quality inspection in relation to public sector related to the 2020/21 audit year. This inspection covered Grant Thornton UK LLP (nine audits reviewed), Ernst & Young LLP (four audits reviewed) and Mazars LLP

(four audits reviewed). The position for EY is given in the table below, which is from the FRC's. Major Local Audits, October 2021, Audit Quality Inspection report.

Ernst & Young LLP

Our assessment of the quality of audits reviewed – financial statements audit



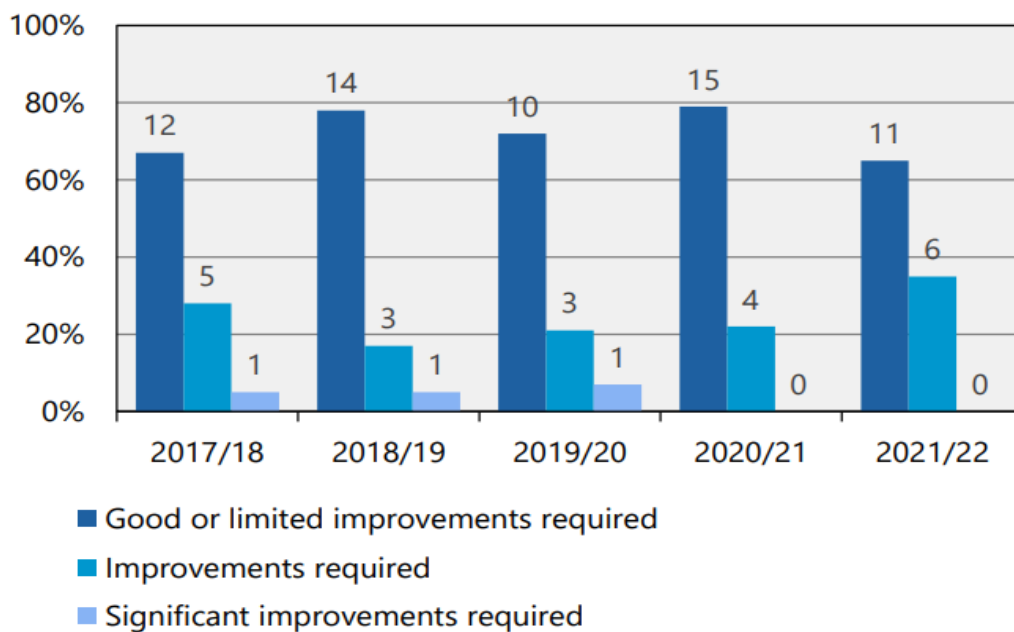
https://www.frc.org.uk/getattachment/97b5a417-d9bf-4649-b3c3-3ae49a350fe7/FRC-AQR-Major-Local-Audits_October-2021.pdf

- 3.2 The audit quality results for FRC's inspection of the four EY opinion audits assessed one as requiring improvements, with 3 (75%) in the top classification. No audits were assessed as requiring significant improvements. In previous years, the firm had increased both local audit training and the rigour of its audit methodology. These actions have contributed to the improvements in the firm's quality results since 2017/18. For the Value for Money (VFM) conclusion element of EY's work, all audits were assessed as good
- 3.2 Following table below gives the companies to other Audit firms reviewed in relation to the 2020/21 audit year.

Opinion Audit	Good or limited improvements required	Improvements required	Significant improvements required
Ernst & Young	3 (75%)	1 (25%)	0
Grant Thornton	6 (67%)	3 (33%)	0
Mazars	4 (100%)	0	0
VFM conclusion			
Ernst & Young	4 (100%)	0	0
Grant Thornton	4 (100%)	0	0
Mazars	4 (100%)	0	0

- 3.3 The FRC have done a more recent review on Audit Quality in the Commercial Sector for 2021/22. Care needs to be taken in reading over the results to the public sector but does give some insight into more recent pressure being faced by External Audit firms and its impact on audit quality. This only covers opinion audits as VFM is not applicable to the commercial sector. The report covered seven Tier 1 firms, which were BDO, Deloitte, Ernst & Young (EY), Grant Thornton (GT), KPMG, Mazars, and PricewaterhouseCoopers LLP (PwC).
- 3.4 For EY the table below gives the FRC's findings, which show a worsening position for 2021/22 in the quality of Audit. The FRC inspectors noted that any inspection cycle with audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements. The FRC did not note any systemic reasons for our inspection results but did comment that that EY had identified the need for more effective coaching from senior levels which has been an operationally challenging aspect of remote working.

Our assessment of the quality of audits reviewed: Ernst & Young LLP



Source: [FRC Ernst & Young LLP Public Report July 2022](#)

- 3.5 In response EY noted their disappointment in FRC inspection results, which were out of line with the improved results seen in other inspections including our own internal inspections. The period covered by this review included the most difficult backdrop from the uncertainty brought about by COVID-19 and its impact on businesses, as people navigated lockdown, remote working, and the transition to hybrid working. As noted by the FRC, changes in results from one year to the next are not necessarily indicative of an overall reduction in

audit quality at the firm. However, they are committed to noting the report and making improvements as required.

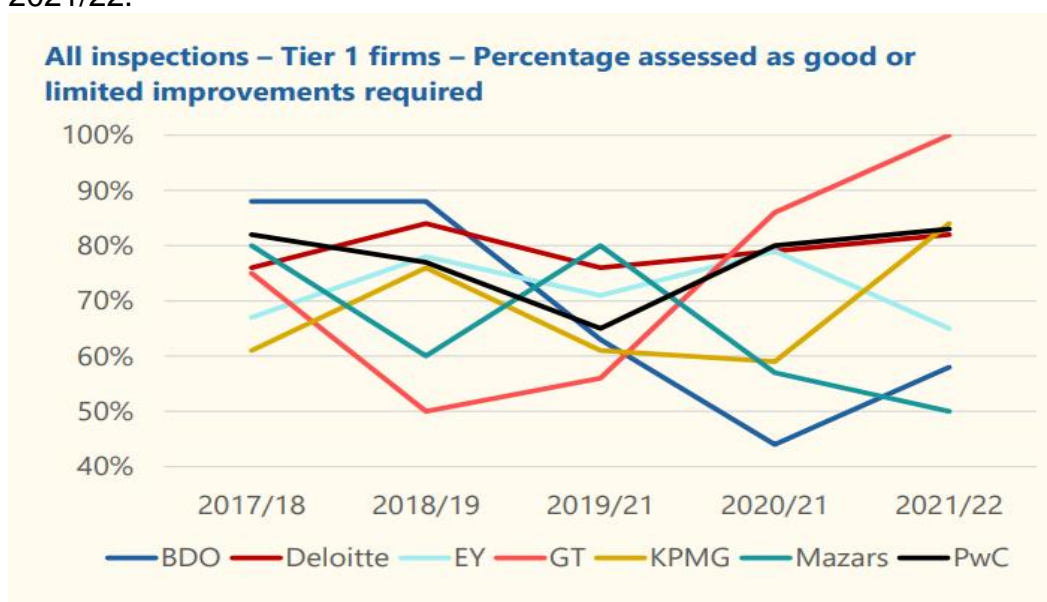
3.6 The Table below noted the performance for 2021/22 in relation to all the firms reviewed.

Opinion Audit	Good or limited improvements required	Improvements required	Significant improvements required
KPMG	16	3	0
PWC	15	3	0
Deloitte	14	3	0
Ernst & Young	11	6	0
BDO	7	1	4
Mazars	4	1	3
Grant Thornton	5	0	0

Opinion Audit	Good or limited improvements required	Improvements required	Significant improvements required
KPMG	84%	16%	0%
PWC	83%	17%	0%
Deloitte	82%	18%	0%
Ernst & Young	65%	35%	0%
BDO	58%	8%	33%
Mazars	50%	13%	38%
Grant Thornton	100%	0%	0%

Source FRC: [Auditors | Audit Quality Review | Audit Firm Specific Reports | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports)

3.7 The FRC provided a graph of the historical performance of the inspected firms which is given below, which shows a fall in EYs score between 2020/21 and 2021/22.



3.7 The FRC report noted:

The inspection results at two firms (BDO and Mazars) remain unacceptable. These firms have been growing too fast, picking up higher risk audits being dropped by their peers, without adequate controls to ensure high quality audits.

BDO and Mazars continue to grow and, given this and the results of their inspections in 2020/21, we again increased the sample of audits we selected for review at each firm. Four of the eight audits that we reviewed at Mazars and five of the 12 audits that we reviewed at BDO needed more than limited improvements. Three and four audits at Mazars and BDO respectively needed significant improvements. These results are worse than last year and suggest a downward trend which is unacceptable.

3.8 Both firms responded they will address the issues noted and were disappointed with the results.

3.9 As noted above, a direct comparison between the commercial audit and public sector audit reviews is not possible, but members are aware of the significant time delays experience at the council due in part to EY staff resources issues.

4. Exemptions in accordance with the Access to Information procedure rules

4.1 Report is taken in an open session.

5. Financial implications [IB]

5.1 Contained within the body of the report.

6. Legal implications [MR]

6.1 The legal implications are contained within the report.

7. Corporate Plan implications

7.1 Adoption of the proposal in this paper will contribute to the achievement of the following Corporate Aim of Empowering communities.

8. Consultation

8.1 None

9. Risk implications

9.1 It is the council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

- 9.2 It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.
- 9.3 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place to achieve successful transition to the new arrangement in a timely and efficient manner.

10. Knowing your community – equality and rural implications

- 10.1 The Financial Statements and the audit process will allow local communities and groups to review the financial performance and stewardship of the Council.

11. Climate implications

- 11.1 None directly from this report.

12. Corporate implications

- 12.1 By submitting this report, the report author has taken the following into account:
- Community safety implications
 - Environmental implications
 - ICT implications
 - Asset management implications
 - Procurement implications
 - Human resources implications
 - Planning implications
 - Data protection implications
 - Voluntary sector

Background papers:	None
Contact Officer:	Ashley Wilson, Ext 5609
Executive Member:	Councillor D. Cope



Hinckley & Bosworth Borough Council

Forward timetable of consultation and decision making

Audit Committee

30 November 2022

Wards affected:

All wards

NEW EXTERNAL AUDIT APPOINTMENT FROM 2023/24 to 2027/28

Report of Head of Finance (Section 151 Officer)

1. Purpose of report

- 1.1 To notify Audit Committee members of the outcome of the External Audit appointment arrangements completed by Public Sector Audit Appointments (PSAA) on our behalf for the period spanning the audits from 2023/24 to 2027/28.

2. Recommendation

- 2.1 The report is noted

3. Background to the report

- 3.1 Public Sector Audit Appointments Ltd (PSAA) is responsible for the procurement of audit services for 470 local government, police, and fire bodies (99% of eligible local authority bodies) that have opted into its national scheme for the next appointing period spanning the audits from 2023/24 to 2027/28. HBBC is one of those opted in members.
- 3.2 PSAA is specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and regulation three of the Local Audit (Appointing Person) Regulations 2015. PSAA appoints an auditor to relevant principal local government authorities that have opted into its national scheme. Appointments are made for the duration of a five-year appointing period. The current appointing period ends in 2022/23, the next appointing period will be for the audits from 2023/24 to 2027/28.
- 3.3 PSAA note that the procurement has taken place against the challenging backcloth of a troubled audit profession, a turbulent market and a local audit

system that is facing unprecedented difficulties including large volumes of delayed audit opinions. Only ten audit suppliers are currently registered to undertake local authority audits in England, three of which opted not to take part in this procurement round, leaving six firms available to complete public sector audits. These firms are noted below with their share of the new appointments market

Share of PSAA's work	
Grant Thornton	36.0%
Mazars	22.5%
Ernst & Young	20.0%
KPMG	14.0%
Bishop Fleming	3.75%
Azets Audit Services	3.25%

- 3.4 Azets Audit Services (Azets) have been appointed to the Council as the External Auditors from 2023/24 to 2027/28. Azets is a UK top ten audit, accounting, and business advisory firm. The firm provides external audit, internal audit and other assurance services across the public sector and has extensive experience of auditing large Scottish councils on behalf of the Accounts Commission. While the firm operates from around 80 local offices spread across the UK, it delivers public sector audit using specialist teams in selected locations in the North, Midlands, and London.

Audit Fees

- 3.5 PSAA sets the fee scale annually and publishes the scale fee for each individual audited body. The current Scale fee for the Council is £38,046 for the 2021/22 financial year, although due to the fee variation process whereby additional work can be charged for, the actual fees have been on average around £50,000. This is likely to increase for the 2022/23 year following consultation and is expected to increase. This is because of
- a) Auditors and auditing have been subject to very high levels of scrutiny in recent times following a number of widely reported financial failures in the private sector. These events led the government to commission a series of reviews focusing on audit regulation, the audit market, audit quality and effectiveness, and more specifically the framework for local audit and financial reporting.
 - b) The Department for Levelling Up Housing and Communities (DLUHC) has announced a range of measures to address the challenges identified in relation to the local audit framework. These measures include arrangements for a 'system leader,' a role which is to be located within a new regulator, the Audit Reporting and Governance Authority (ARGA) when it is established. In preparation, the Financial Reporting Council (FRC) will implement shadow arrangements and has appointed the first Director of Local Audit, who will take up a post leading a dedicated local audit unit in September 2022.

c) Therefore, the fee review is taking place in the context of the significant tensions and pressures in the wider audit market and profession, and of evolving arrangements in the local audit system. The issues highlighted in 2020 in the Redmond review of local audit and financial reporting continue to have a significant impact on audit delivery and have led to increasing delays for auditors in completing some audits.

3.5 The 2022/23 audit year is the last in the current five-year appointing period, which covers the audits of the accounts of relevant authorities for 2018/19 to 2022/23.

3.6 The proposed fees for the audit of 2023/24 accounts have not yet been set but are expected at the end of November. Audited bodies should anticipate a major re-set of fees involving an increase of approximately 150% of total audit fees (scale fees plus fee variations), noting that the actual fees will depend on the amount of work required. Therefore, the example given by PSAA is that if the 2022/23 total audit fees are expected to be £100,000, your 2023/24 total audit fee is likely to be approximately £250,000.

3.7 For HBBC this will mean the fee will increase significantly for the next appointing period spanning the audits from 2023/24 to 2027/28. The table below gives an expected range possible fees depending on the fee charged for 2022/23.

Potential 2022/23 fee	New 2023/24 to 2027/28 fee
£38,046	£95,115.0
£45,000	£112,500.0
£50,000	£125,000.0
£55,000	£137,500.0
£60,000	£150,000.0
£65,000	£162,500.0
£70,000	£175,000.0

4. Exemptions in accordance with the Access to Information procedure rules

4.1 Report is taken in an open session.

5. Financial implications [IB]

5.1 Contained within the body of the report.

6. Legal implications [MR]

6.1 The legal implications are contained within the report

7. Corporate Plan implications

- 7.1 Adoption of the proposal in this paper will contribute to the achievement of the following Corporate Aim of Empowering communities.

8. Consultation

- 8.1 None

9. Risk implications

- 9.1 It is the council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 9.2 It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.
- 9.3 There is no immediate risk to the Council.

10. Knowing your community – equality and rural implications

- 10.1 The Financial Statements and the audit process will allow local communities and groups to review the financial performance and stewardship of the Council.

11. Climate implications

- 11.1 None directly from this report, however, additional pressure on the general fund will mean less funding is available for green projects.

12. Corporate implications

- 12.1 By submitting this report, the report author has taken the following into account:
- Community safety implications
 - Environmental implications
 - ICT implications
 - Asset management implications
 - Procurement implications
 - Human resources implications
 - Planning implications
 - Data protection implications
 - Voluntary sector

Background papers:	None
Contact Officer:	Ashley Wilson, Ext 5609
Executive Member:	Councillor D. Cope