

<b>Meeting:</b>	<b>Audit and governance committee</b>
<b>Meeting date:</b>	<b>Tuesday 19 March 2019</b>
<b>Title of report:</b>	<b>External audit progress report</b>
<b>Report by:</b>	<b>Chief executive</b>

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose and summary**

To provide the committee with a progress update of the work being undertaken by the external auditor, Grant Thornton.

The progress update also includes a sector update on emerging issues for the committee to consider.

Overall Grant Thornton are making satisfactory progress against the audit deliverables.

## **Recommendation(s)**

**That:**

- (a) the progress report and sector update attached at appendix 1 be reviewed and the committee determine any recommendations it wishes to make to ensure the value of the external audit work is maximised.**

## **Alternative options**

1. There are no alternative recommendations. The report provides a factual update on progress against the agreed external audit annual plan in accordance with the functions of the committee, together with briefings on a range of matters of local government interest.

## Key considerations

2. The external auditor's progress report attached at appendix 1 provides the committee with an update on progress against delivering the external audit responsibilities.
3. An initial 2018/19 interim audit visit has been completed, a follow up visit will take place in March. Materiality levels, in relation to monetary misstatements, disclosure requirements and adherence to acceptable accounting practice and applicable law, have been increased for 2018/19.
4. Materiality has been set at £10.2m (£6.6m in the previous year) for the group and £10m (£6.5m in the previous year) for the Council, being 1.4% of the prior year asset value, see table below:-

Threshold	2018/19 value £000	2017/18 value £000	Methodology
Group financial statements	10,200	6,600	Based on 1.4% of asset value (1.8% of gross expenditure in prior year)
Council financial statements	10,000	6,500	Based on 1.4% of asset value (1.8% of gross expenditure in prior year)
Misstatements reported to the committee	500	332	Based on a determination of a value below which is considered to be trivial

5. The change in materiality being determined by reference to asset value is in recognition of the users of the financial statements (considered to be the general public) are mainly concerned with the financial strength of the Council and whether the current level of services will be reduced. Assets are seen as a sign of financial strength. Practice note 10 – Financial Reporting Council – gives an example that assets can be used as a basis for determining materiality. The new materiality level set will be considered when reviewing any impact of misstatements on the Comprehensive Income and Expenditure Statement and will still provide assurance to the Engagement Lead.
6. Separate materiality levels continue to be appropriate for disclosures of officers' remuneration.
7. Any identified unadjusted misstatements of lesser amounts will continue to be reported to the committee unless they are determined to be trivial. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, trivial is proposed to be less than £500k (£332k in the previous year).
8. The appendix also includes a summary of emerging national issues for consideration by the committee.
9. Overall Grant Thornton have made satisfactory progress against their audit plan and of the work concluded no items have been identified that require highlighting to the committee.

## Community impact

10. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

## Equality duty

11. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:  
A public authority must, in the exercise of its functions, have due regard to the need to -
  - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
12. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

## Resource implications

13. The update has no direct resource implications however the consideration of sector wide emerging issues may lead to further work streams being identified.
14. As approved by the committee in May 2018 the 2018/19 annual external audit fee totals £96k (£124k in previous year).

## Legal implications

15. The update has no direct legal implications.

## Risk management

16. The potential risks of being unaware of the update include not producing a compliant statement of accounts; this is being mitigated by ensuring the corporate finance team maintain up to date financial knowledge and awareness and maintain open dialogue with the council's external auditors with whom there is an established, defined and detailed working paper requirements being complied for the next audit visit.

## Consultees

17. None.

## **Appendices**

Appendix 1 External audit progress update

## **Background papers**

None identified.