

Meeting:	Audit and governance committee
Meeting date:	Tuesday 16 June 2020
Title of report:	External audit progress update
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

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

The progress update also includes an external audit plan update following the Covid-19 pandemic and 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 and addendum at appendix 2 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. Initial 2019/20 interim audit fieldwork has been completed. Good progress is being made to plan, an initial risk assessment and sample review has been concluded and no new emerging issues have been identified.
3. The audit deliverables timeline has changed following the Covid-19 pandemic. The statutory audited accounts deadline has moved from 31st July to 30 November 2020, the final audit visit has been delayed by four weeks in response to this announcement. Page 7 of appendix 1 provides further details.
4. Appendix 1 also includes a summary of emerging national issues for consideration by the committee.
5. The update includes at page 10 reference to the Sir Tony Redmond review of the quality of local authority financial reporting and external audit. Grant Thornton believe that local authority financial reporting and audit needs to reframe. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on councils and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. The Sir Donald Brydon review recommends "the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements." Recognising the unique nature of public audit, and the special importance of stewardship of public money, Grant Thornton also recommend that a similar profession be established for local audit.
6. Page 12 of appendix 1 confirms that on 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process. The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies.
7. Page 13 of appendix 1 updates the committee on IFRS 16 Leases, as interpreted and adapted for the public sector, which was to become effective from 1 April 2020 however this has been delayed to 1 April 2021 in response to the pandemic. The corporate finance team continues to review the leases, and associated terms, the council has to correctly disclose the impact of this accounting change. The impact is not expected to be material.
8. Appendix 2 provides an update to the planned scope and timing of the statutory audit of Herefordshire Council as reported in the Audit Plan dated 28 January 2020. Financial statements are required for 2019/20 in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. The impact of Covid-19 has been identified as a new significant audit risk, this and Grant Thornton's response is described on page 3 of appendix 2.

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 factual update, 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. The committee approved in July 2019 the 2019/20 annual external audit fee total of £96k, the proposed fee has now increased by £11k to total £107k (£106k in 2018/19).
15. The table below shows the planned variations to the original scale fee for 2019/20 to be approved by PSAA.

Audit area	£	Rationale for fee variation
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge

		and scepticism.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,000	From increased granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
Property, Plant and Equipment Valuation – work of experts	3,000	Increased volume and scope of audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin Property, Plant and Equipment valuations.
New accounting standards / developments	2,500	Since the PSAA's original scale fee was set in March 2018.

Legal implications

16. The update has no direct legal implications.

Risk management

17. 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 final audit work.

Consultees

18. None.

Appendices

Appendix 1 External audit progress report and sector update

Appendix 2 External audit plan update

Background papers

None identified.