



CORPORATE GOVERNANCE COMMITTEE – 31 JANUARY 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT PLAN 2019/20

Purpose

1. To present the External Audit Plan 2019/20 for the Council and its Pension Fund for consideration.

Audit Plan 2019/20

2. The Audit Plan for 2019/20 is included as an Appendix attached to this report. John Gregory from the County Council's External Auditors, Grant Thornton UK LLP, will attend the meeting in order to present the Audit Plan and answer any questions.
3. The significant risks identified by the External Auditor for 2019/20 (same as in 2018/19) are:
 - Management override of controls – review of management controls over journals, accounting estimates and accounting policies.
 - Valuation of land and buildings – review of the valuation of assets valued on a cyclical basis.
 - Valuation of the pension fund net liability – review of assumptions, methodology and data provided to the Actuary.
 - Pension Fund – valuation of hard to price investments – review of estimates used.
4. Overall materiality for the audit opinion for the County Council has been set at £11.9m (£14m 2018/19) and for the Pension Fund at £29m (£29m 2018/19). The lower limit for the County Council reflects the higher profile of local audits following recent external reviews including the Redmond Review. The limit set is at the highest level for the auditors' major audits. The change in limit is not expected to have an impact on the County Councils accounts.
5. The scale fee (set by Public Sector Audit Appointments Limited (PSAA), the sector led body for external auditor appointments following a tendering exercise) is £59,252 for the County Council and £21,280 for the Pension Fund for 2019/20, the second year of a five-year contract. It should be noted that these fees were 23% lower than the previous contract. In 2019/20 additional audit work was required on the County Councils accounts in respect of the valuation of land and buildings and the pension fund (McCloud legal case), bringing the total to £65,252.

6. For 2019/20 the Financial Reporting Council (FRC) has set out an expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. As a result, the auditor has reviewed the proposed fees for 2019/20. The initial estimates are to increase the County Council fee to £79,602 and the Pension Fund fee to £25,530. These will be discussed further with the Director of Corporate Resources and will be subject to the approval of PSAA. The increased expectations on audit firms is across all sectors and all audit firms.

Production of Draft Accounts and Audit Timetable 2019/20

7. The County Council is in the process of replacing its financial system, with implementation of the new system from 1 April 2020. This is major system replacement affecting the whole authority and particularly the finance team at a critical time of the year. The team will need to balance production of the statement of accounts as well as supporting the introduction of a new system.
8. To manage the workload and reduce the risk in a responsible way, discussions have taken place with the Council's External Auditors to allow slightly more time to complete the financial statements. The agreement is to move completion of draft accounts to the end of June, instead of the end of May. This will delay completion of the external audit to the end of September instead of the end of July. The pension fund accounts, while affected by the change of financial system, will continue to be prepared and audited by the end of May and July respectively. This is because the auditor is required to provide assurance on these to the auditing firms of employers within the fund.
9. The External Auditor has agreed that this is a sensible way forward and is supportive of the proposals. Early agreement of the change in dates assists the auditor with planning their resources across their other audits.
10. To comply with the regulations on the dates of publication of the financial statements, the Council will include an update on its website to explain the reasons for the revised timescales. The change in dates would apply to the 2019/20 financial year only. The revised dates have also been discussed with the Chair of the Committee and the Lead Member for Corporate Resources.
11. Democratic Services have also been consulted on the requirement for a meeting of the Committee at the end of September (date to be determined) to receive the auditor's opinion.

Recommendation

12. The Committee is asked to note the update provided by Grant Thornton UK LLP and revised dates for the completion of the County Councils financial statements.

Equal Opportunities

13. None.

Circulation Under the Local Issues Alert Procedure

14. None.

Background Papers

15. Appointment of External Auditor 2018/19 – Update, 22 September 2017
<https://bit.ly/2vg2BiJ>

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