



CORPORATE GOVERNANCE COMMITTEE – 4 JUNE 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT PLAN AND RISK ASSESSMENT 2020/21

Purpose

1. To present the External Audit Plan and Audit Risk Assessment for the Council and its Pension Fund for consideration.

Audit Plan 2020/21

2. The Audit Plan for 2020/21 is included as Appendix A 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 2020/21 are summarised below.

(Same as in 2019/20):

- Management override of controls – review of management controls over journals, accounting estimates and accounting policies.
- Valuation of property, plant and equipment (PPE) – 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.

(New 2020/21):

- Revenue and Expenditure Recognition Risk – review of accounting for income and expenditure, mainly Covid 19 grants and expenditure.
 - Implementation of new general ledger – review of the balances and controls.
4. The Audit Plan includes a review of the Council's approach to accounting estimates and estimation uncertainty – see separate heading later in this report.
 5. Overall materiality for the audit opinion for the County Council has been set at £12m (£11.9m 2019/20) and for the Pension Fund at £29m (£29m 2019/20). The limit set is at the highest level for the auditors' major audits.

6. Value for Money (VfM) arrangements. The National Audit Office (NAO) has introduced a new Code of Audit Practice which applies to the 2020/21 audit year. The changes require additional audit work and an audit report on the Council's arrangements for improving economy, efficiency and effectiveness, financial sustainability, and governance.
7. The scale fee (set by Public Sector Audit Appointments Limited (PSAA), the sector led body for external auditor appointments following a tendering exercise) in 2017 is £59,252 for the County Council and £21,280 for the Pension Fund for 2020/21, the third 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 required by enhanced audit requirements for new standards, enhanced procedures for PPE and Pension valuations revised the base total to £77,102 for the County Council and £25,530 for the Pension Fund.
8. For 2020/21, the revised approach to the VfM audit and additional requirements from the Financial Reporting Council (FRC) in relation to improved financial reporting and a number of revised International Auditing Standards (ISA's), will require increased audit work. As a result, the auditor has proposed to increase the audit fees to £107,602 for the County Council (an increase of £30,500) and £34,530 for the pension fund (an increase of £9,000). 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.
9. The Ministry of Housing, Communities and Local Government (MHCLG) in response to the Redmond Review on the effectiveness of external audit, has recognised the need to revise the fee structure for local audits. MHCLG has recently announced additional funding of £15m will be provided to relevant local government bodies. Two consultations, one on amending the Local Audit (Appointing Person) Regulations 2015 and one on the method of distribution of the additional funding have recently been undertaken. The responses of the Director of Corporate Resources are attached as Appendix B and C respectively. As the consultation deadlines were only within the last few weeks, the outcome, and hence the actual distribution of the additional funding is not yet known. The Committee will receive a separate report at the meeting regarding developments with external audit arrangements.

External Audit Risk Assessment

10. The Council's External Auditors, Grant Thornton UK LLP, have prepared a report 'Informing the audit risk assessment for Leicestershire County Council and Pension Fund 2020/21' a copy of which is attached as Appendix D to this report.
11. The assessment is undertaken by Grant Thornton as part of its risk assessment procedures. It is used to gain an understanding of the Council's processes and managing officers' views on various auditing standards. The report sets out questions raised by Grant Thornton on areas such as fraud, laws and regulations, going concerns, accounting estimates and related parties, all of which have an impact on the Council's operations.

12. Management (Finance, Internal Audit and Legal Services) have completed a self-assessment of the questions and provided responses to the External Auditor. These are included within the Auditor's report and reflect updates provided to this Committee.
13. As part of its assessment of the above risk areas, the external auditor is required to make inquiries of the Corporate Governance Committee under auditing standards. Presentation of the report to this Committee also contributes towards the effective two-way communication between auditors and the Council's Corporate Governance Committee, as 'those charged with governance'.
14. Representatives from Grant Thornton will attend the meeting to present the report and answer any questions.

Production of Draft Accounts - Update

15. The Accounts and Audit (Amendment) Regulations 2021 were issued in March 2021. The update amended the original 2015 Accounts and Audit Regulation deadline, for the publication of draft accounts, from the end of May to the end of July, to allow additional time due to the impact of the Covid-19 pandemic. This is the same date as in 2020, and applies to the 2020/21 and 2021/22 financial years only. The Council is on track to meet the updated deadlines.

Recommendation

16. The Committee is asked to note the attached reports and to provide any comments.

Equality and Human Rights Implications

17. None.

Circulation Under the Local Issues Alert Procedure

18. None.

Background Papers

Appendix A – External Audit Plan

Appendix B – Appointing Person Consultation, Director of Corporate Resources Response

Appendix C – Redmond Review £15m to Local Bodies, Director of Corporate Resources Response

Appendix D – External Audit Risk Assessment

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