

## Report of the External Auditor

### External Audit Plan (2019/20 Accounts)

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#### Introduction and Summary

The Audit Plan presented to Members reflects our risk based approach to auditing the Authority's Financial Statements and providing a Value for Money Conclusion (VFM).

The Plan was written before the outbreak of Covid-19 and reflects the work that we intended to undertake at that time. In particular it highlights the two financial statement "Significant Risks" on the pension fund net liability and the valuation of property. These risks, and our proposed response, are consistent with previous years. These are by far the largest figures in the accounts and, as you would expect, are the main focus of our work. Following feedback from our regulator, the Financial Reporting Council, all audit providers are having to undertake more work in these areas than in the past, and this is reflected in the increased audit fee that we have agreed with the Treasurer. The detail is set out on page 14.

As in previous years, we have identified one "Significant" VFM risk – around the financial sustainability of the Authority and progress being made to reduce the long term funding gap.

Page 8 of our report comments on the introduction of a new accounting standard – IFRS 16 Leases – from 1 April 2020. As a result of the Covid-19 outbreak the implementation date has been put back one year. The Authority will still need to include a disclosure on the fact that the standard has been issued but not yet adopted, and the likely impact where known.

CIPFA has announced that it is intending to prepare a reduced Code for 2019/20, with the intention of reducing the work in preparing the financial statements. Until the revised Code is published, and the implications digested and understood, it would be speculation to discuss the impact on our audit work. We will continue to liaise closely with your officers to agree requirements, including supporting working papers and timeframes. Any impact on our audit fee will be discussed with officers and communicated with Members in the usual way.

In terms of timescales for our audit work, Members need to be aware that the deadline for audited NHS accounts to be submitted has been put back one month to 25 June. We had agreed with your officers that we would begin our audit on 1 June, so there is likely to be some slippage. However, as the Treasurer notes in point 6 below, the timescale for the production and audit of the Authority accounts has also been put back.

## **Introduction and Background**

1. The External Auditor is required to inform the Authority of the work they will undertake during an annual audit and this is submitted in the form of an Audit Plan.
2. The Audit Plan is based on the Grant Thornton's risk-based approach to audit planning.
3. Grant Thornton comply with the statutory requirements that govern their work in particular:
  - The National Audit Office Code of Audit Practice
  - International Standards on Auditing (ISA) (UK)
  - Financial Reporting Council (FRC)

## **Key Milestones and Deadlines**

4. The Authority is required to prepare the accounting statements by 31 May 2020.
5. The Authority is required to publish the accounts along with the Auditor's Opinion, by 31 July 2020.
6. Government has indicated that for the 2019/20 accounts it intends to amend these deadlines to 30 June and 30 September respectively.
7. The proposed timetable and planned outputs are included within the report which will be presented by Grant Thornton.
8. The plans of the Authority and External Auditor we set out before the impact of Covid-19 restrictions could be quantified and plans may need to be amended to take account of this.

## **Audit Fee**

9. The plan proposes an increase in Audit fee, which is yet to be ratified by Public Sector Audit Appointments (PSAA) (the collective body established by the majority local authorities to manage the selection and appointment of external auditors) and reflects national pressures on auditors and not any Hereford & Worcester specific risks.
10. The two key elements of the rise are detailed as:
  - "Raising the Bar" and is by direction from the FRC following criticism of audit in the case of large scale private sector company failures – again emphasising that this was a criticism of the audit sector and not specifically of Grant Thornton.
  - Additional work on Pensions liabilities and Property Plant & Equipment (Fixed Assets) and again another filter through from private sector

requirements applied to the public sector. Whilst these are big numbers in the Balance Sheet, the funding arrangements for the former and reasons for holding the latter, their practical significance in local authority accounts is substantially different to the private sector.

11. Whilst it is disappointing to see a 25% increase in fee in only the second year of the contract, it is consistent across the whole local authority sector, and was probably inevitable, given the state of the external audit market at present.

## **Conclusion**

12. The Audit Plan sets out the work that will be undertaken during the audit of the 2018/19 Accounts. The Plan is based on Grant Thornton's risk based approach to audit planning. However, the audit does not relieve the management or the Audit and Standards Committee, as those charged with governance of their responsibilities.