



# Report to Audit and Governance Committee

**Date:** 28<sup>th</sup> July 2021

**Reference number:**

**Title:** EXTERNAL AUDIT PLAN FOR 2020/21 (MAIN ACCOUNTS & PENSION FUND) AND FEES

**Relevant councillor(s):** N/A

**Author and/or contact officer:** Richard Ambrose (S151)

**Ward(s) affected:** Not applicable

**Recommendations:** Members are requested to note the following:

- (i) Audit plan for the main accounts (Appendix 1) summarised in paragraphs 1.3 to 1.5.
- (ii) Audit plan for the Pension Fund accounts (Appendix 2) summarised in paragraphs 1.6 to 1.7.
- (iii) Auditors fees letter (Appendix 3) and Proposed fees for both the Council and Pension Fund accounts as summarised in paragraphs 1.8 to 1.10.

**Reason for decision:** Not applicable

## Executive summary

1.1 This report provides the Committee with an opportunity to consider the External Audit Plans and proposed audit fees for 2020/21 from the Council's External Auditors.

## Content of report

1.2 The External Audit Plans provide the Council with clarity about how the external audit of the Council's accounts and Pension Fund accounts for 2020/21 will be conducted. The audit plan sets out Responsibilities, Scope of Audit, Significant Risks, Materiality, Value for Money Arrangements and assessment of internal controls over Accounting Estimates.

## **Council's Audit Plan**

- 1.3 For the Council, the auditor has identified seven significant risks which includes: The revenue cycle; Fraudulent expenditure recognition; Management override of controls; Valuation of land and buildings; Valuation of investment properties; Valuation of pension fund net liability and Completeness and accuracy of opening balances for the new Unitary Council.
- 1.4 The financial statement materiality is based on 1.25% of the forecast gross expenditure of the council which equates to £17m at the planning stage of the audit. The materiality for reporting to the committee of uncorrected omissions or misstatements is set at £0.85m.
- 1.5 The new Code of Audit Practice which comes into effect from audit year 2020/21 has introduced revised approach to the audit of Value for Money (VFM) which has resulted in three main changes to the approach:
- i. A new set of key criteria covering financial sustainability, governance and improvements in economy, efficiency and effectiveness.
  - ii. More extensive reporting.
  - iii. The replacement of the binary qualified/unqualified approach to VFM conclusions.

## **Pension Fund Plan**

- 1.6 For the Pension Fund, the auditor has identified four significant risks which includes: Fraudulent revenue recognition; Fraudulent expenditure recognition; Management override of controls and Valuation of Level 3 investments.
- 1.7 The financial statement materiality is based on prior year net assets which equates to £29.137m at the planning stage of the audit. The materiality for reporting to the Committee of uncorrected omissions or misstatements is set at £1.457m.

## **Audit Fees**

- 1.8 The proposed scale fees take into consideration the following factors:
- i. New Code of Audit Practice introduced by the National Audit Office which has implications for Value for Money work and the introduction of a new Auditor's Annual Report.
  - ii. Revised International Auditing Standards (ISA) including: ISA 540 in respect of Auditing Accounting Estimates and Related Disclosures; ISA 240 Risks in respect of fraud; ISA 700 forming an opinion and reporting on financial statements.

- iii. Risks arising from of Covid-19 and related issues.
- iv. New Unitary Council: this entails first year audit review of: Merger accounting and disclosures; Opening balances; testing of the new Council's asset base and detailed testing of the Collection Fund.

1.9 The proposed scale fees are summarised below:

- i. Main Audit: £300k – This includes £35k resulting from the New Code of Audit Practice and revised ISAs.
- ii. Pension Fund Audit: £38k – This is an increase of £9k from the 2019/20 actual audit fees and £19k increase from the scale fees. This is mainly due to regulatory factors, enhanced audit procedures for valuation of Level 3 investments and increased audit requirements of revised ISAs.
- iii. Other Services: £20k Housing Benefit Assurance Process and £7.5k Certification of Teachers' Pension return.

1.10 MHCLG have acknowledged, via their response to the Redmond review, that audit fees need to increase due to the additional work being undertaken by auditors and the pressure on the audit market. Funding of £15m is being provided to local government to cover these additional costs in 2020/21. At the time of writing the report the allocation for the Council is not yet known.

### **Other options considered**

1.11 Not applicable.

### **Legal and financial implications**

1.12 Not directly related to this report.

### **Corporate implications**

1.13 Not applicable.

### **Consultation and communication**

1.14 Not applicable.

### **Next steps and review**

1.15 Not applicable.

### **Background papers**

1.16 Not applicable.