

REPORT OF: CHIEF EXECUTIVE
TO: ACCOUNTS AND AUDIT COMMITTEE
DATES: 28th JANUARY 2020

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EXTERNAL AUDIT – MISCELLANEOUS MATTERS

PURPOSE OF REPORT

1. This report provides the Committee with an update on various matters relating to the external audit of the Council's accounts and arrangements for securing value for money.

RECOMMENDATIONS

2. It is recommend that the Committee note the report.

ISSUE

Challenges facing External Audit

3. Whilst not directly affecting Pendle, given the completion of our External Audit for 2018/19 in a timely manner, the Committee should be aware of the current challenges facing external audit, not least arising from a range of reviews into audit which have been commissioned by the Government.
4. At the time of writing, there are a significant number of delayed 2018/19 audit opinions in local bodies including Local Government. This is a much more prevalent problem than in previous years. The causes of delay vary from body to body.
5. However, the most frequent explanations appear to be an increasing shortage of audit resources suitable for local government work (including significant recruitment and retention challenges), and/or concerns about the quality of draft accounts and working papers (it is acknowledged by CIPFA that producing IFRS-based, code-compliant accounts is a time-consuming annual task, placing considerable strain on what are now leaner finance teams), and/or challenges resolving technical issues within increasingly complex accounts.

6. It is also apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures (PA in the private sector have played a part. These high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon is currently looking at the audit product.
7. It is not yet clear what, if any, the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.
8. More specifically for local government audit work, there is a wide-ranging debate about the areas of focus, including concerns that there is too much focus on figures that are not necessarily priorities for audited bodies and electors. CIPFA has recently consulted on the strategy for the Accounting Code, including possible ways that it may evolve in the future. MHCLG has also commissioned Sir Tony Redmond to review financial reporting and audit in local government. Until such time as changes are made, however, the position is that auditors are required to ensure that they have sufficient assurance to meet the professional requirements in the current framework before they can issue their opinions.
9. Having consulted with various bodies, PSAA have indicated that one issue that arises regularly is the timing and clarity of auditors' communication. Too frequently bodies – like Pendle – do not receive information about additional work which the auditor may need to undertake (as well as related fee implications) until very near to the end of the audit process. Until 2018/19, when the issues around Pensions Accounting associated with the McCloud Judgement arose, this has not been an issue for Pendle.
10. In response, PSAA have stressed that bodies need this information at the earliest possible opportunity. This includes that wherever possible auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. Whilst it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage. It should also be noted that any proposed variation to the fee remains subject to PSAA approval, and cannot be charged unless agreed by them.

Update on the Code of Audit Practice

11. The Local Audit and Accountability Act 2014 ('the Act') makes the National Audit Office (NAO) responsible for the preparation, publication and maintenance of the Code of Audit Practice ('The Code'). The Code sets out what local auditors (in the Council's case, the External Auditor) are required to do to fulfill their statutory responsibilities under the Act.
12. Schedule 6 of the Act requires the responsibilities NAO to conduct a review of the Code at least every 5 years. The current Code came into force on 1st April 2015 and the maximum lifespan of the Code means it now needs to be reviewed and a new Code laid before Parliament in time for it to come into force from 1st April 2020.
13. The NAO have already undertaken a two-stage consultation on the proposed new Code. The next stage is for the new Code to be presented for Parliamentary approval which is expected in the near future, subject to securing time in the Parliamentary business calendar.

External Audit Fees 2020/21

14. The duty to set audit fees is the responsibility of Public Sector Audit Appointments (PSAA), a body established by the Local Government Association following the abolition of the Audit Commission. Ordinarily, PSAA would, by now, have opened a consultation on audit fees for 2020/21 but they have indicated that until the new Code of Audit Practice has been agreed (as referred to above), and the full implications for Auditors is known, they are unable determine the fees which would be subject to consultation. PSAA's current plan is to consult with bodies – such as Pendle – from 27th January to 6 March 2020.
15. PSAA have also indicated that the NAO expected to consult and then update Auditor Guidance Notes (AGNs) that support the Code following its approval. Those AGNs will provide more detail on the Auditor's responsibilities, which will be an important factor in ultimately determining the impact on any individual body. PSAA will need to take this further consultation into account when constructing their fee proposals.

IMPLICATIONS

Policy

16. There are no policy implications arising directly from the recommendations in this report.

Financial

17. The Council's proposed budget for 2020/21 includes provision of £53k for External Audit Fees comprising £40,000 for the Scale Audit Fee and £13,530 for the Housing Benefit Grant Certification work.

Legal

18. There are no new legal implications resulting directly from the recommendations in this report.

Risk Management

19. There are no implications for the strategy risk register resulting directly from the recommendations in this report.

Health and Safety

20. There are no health and safety implications arising directly from the recommendations in this report.

Sustainability

21. There are no sustainability implications arising directly from this report.

Community Safety

22. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity

23. There are no equality and diversity issues arising from the contents of this report.

APPENDICES - None

LIST OF BACKGROUND PAPERS – None

