

AUDIT COMMITTEE

19 MARCH 2020

EXTERNAL AUDIT PLAN 2019/20 AND AUDIT PROGRESS REPORT WITH SECTOR UPDATE

Report from: Phil Watts, Chief Finance Officer

Author: Andy McNally-Johnson, Finance Business Partner
(Corporate Reporting)

Summary

This report presents the plan of Medway Council's External Auditors, Grant Thornton, for the audit of the Council's Statement of Accounts for the financial year 2019/20 (Appendix 1), together with the latest update progress report and sector update for information (Appendix 2).

1. Budget and Policy Framework

- 1.1. International Standards on Auditing require the audit plan to be communicated to 'those charged with governance.' The terms of reference of this Committee include: discussions with the external auditor on new accounting standards, changes to the reporting framework and the basis of the annual audit, including the content of performance work.

2. Background

- 2.1. In accordance with the International Standards on Auditing it is necessary to communicate the annual audit plan for 2019/20. The purpose of the audit plan is to provide an overview of the planned scope and timings of the statutory audit of Medway Council for those charged with governance.
- 2.2. The overall scope of the work to be carried out is determined by the Code of Audit Practice and International Standards on Auditing. The Auditors are responsible for forming and expressing an opinion on:
 - Authority's financial statements that have been prepared by management with the oversight of those charged with governance the Audit committee; and
 - Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in its use of resources.

- 2.3. The plan also sets out the external auditors' approach to:
- Significant and other risks,
 - Other matters
 - Materiality,
 - Value for money arrangements,
 - Audit logistics,
 - Audit fees, and
 - Independence & non audit services.
- 2.4. The Audit Plan for the year ending 31 March 2020 is attached as Appendix 1 of this report. Pages 14 to 16 of the Plan detail proposed fees for core audit and those for certification of the Housing Benefit Subsidy, Pooling of Housing Capital Receipts and Teachers Pensions End of Year Certificate.
- 2.5. Page 15 of the Plan details planned variations to the original scale fee of £109,687 for 2019/20 of £21,400 based on Grant Thornton's best estimate at the audit planning stage. The proposed increases, which currently form part of discussions between Grant Thornton and the Chief Finance Officer, are in response to increased requirements on firms to improve the quality of their audit work by the Financial Reporting Council (FRC) and lessons learned from the 2018/19 audit of financial statements across local government as a whole.
- 2.6. In agreement with PSAA (where applicable) Grant Thornton will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of the scale fee to reflect the increased level of audit work required to enable them to discharge their responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.
- 2.7. The proposed fees for other services, detailed on page 16 of the Plan remain at the 2018/19 rate previously agreed with the Chief Finance Officer as follows:
- Certification of Housing Benefits subsidy claim - £20,000,
 - Certification of Pooling of Housing Capital Receipts - £3,200, and
 - Agreed upon procedures engagement relating to the Teachers' Pensions End of Year Certificate - £5,000.
- 2.8. The update report attached at Appendix 2 provides the Audit Committee with Grant Thornton's progress in delivering their responsibilities as the council's external auditors.
- 2.9. The paper also includes:
- a summary of emerging national issues and developments that may be relevant to Medway as a local authority; and
 - includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes).

3. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Budget pressure	The budget for audit fees has been set at the level of the scale fee proposed by the PSAA; any additional fee charged by Grant Thornton would result in a budget pressure in 2020/21.	<p>It will be necessary to work to identify compensating savings within Business Support and Centralised Service budgets.</p> <p>The Finance Division work to ensure that the statements accurate and supported by high quality working papers to minimise the risk of additional fees being charged.</p>	E3

4. Financial implications

4.1. The financial implications are set out in paragraphs 2.5 to 2.7 above. The additional costs will be funded from existing revenue budgets.

5. Legal implications

5.1. There are no legal implications associated with this report.

6. Recommendations

6.1. That the Committee notes the proposed annual Audit Plan for 2019/20 including the variation to the core fees from 2019/20 for the remainder of the contract.

6.2. That the Committee notes the latest progress and sector updates provided by Grant Thornton.

Lead officer contact

Andy McNally-Johnson, Finance Business Partner (Corporate Reporting), Finance Strategy, Gun Wharf, Chatham.

Telephone 01634 333552

E-mail andy.mcnallyjohnson@medway.gov.uk

Appendices

Appendix 1 – Grant Thornton Audit Plan 2019/20

Appendix 2 – Grant Thornton Audit Progress Report and Sector Update

Background papers

None