

Audit Progress Report and Sector Update

Somerset County Council
Year ending 31 March 2020

18 January 2021



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you 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)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at September 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We began our work on your draft financial statements in July 2020.

In March 2020 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We reported our initial findings to the September 2020 Audit Committee for both the Council and the Pension Fund noting that there were still areas that required completing prior to us issuing the Audit Opinion.

Specifically we have been working on obtaining sufficient assurance over the valuation of property assets. This has required communication with the valuations team, the Director of Finance and the senior finance team and, further review of the inputs and methodologies used to calculate the asset valuations. The completion of this work has identified there is a potential material misstatement in the value of the assets and therefore, we have requested that the Council undertake a formal revaluation exercise to identify the value of the misstatement. The Council will also need to consider whether there has been any impact of the 2018-19 accounts as a result of this exercise.

This work has been agreed with Director of Finance and Head of Corporate Property and will be undertaken in early 2021. We will need to review and test the outcome of this work to gain sufficient assurance over the accuracy of any adjustments and disclosures within the statement of accounts before we are able to issue our audit opinion.

With the exception of the issues reported above we have completed our testing for both the Council and the Pension Fund with the exception of the following areas:

- receipt of the updated management representation letter; and
- review of the final set of financial statements

Covid-19

The Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and Value for Money (VfM) approach to reflect the unprecedented global response. We included this issue in our audit plan, communicated to Those Charged with Governance in July 2020 setting out a significant financial statement risk in relation to Covid-19

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We reported our work in the Audit Findings Report and indicated that we would issue an unqualified Value For Money conclusion. There has been no substantive change to the conclusion since we reported this to Those Charged with Governance.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020. The NAO has now issued the formal guidance that will inform the approach for the 2020-21 audit which was reported to the Audit Committee in November.

Progress at September 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim was completed in advance of the 30 November deadline.

Meetings

We continue to meet with Finance Officers as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers have been invited to attend our Financial Reporting Workshop in February 2021, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Director of Finance including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

In addition to the increased work highlighted above, the impact of Covid-19 pandemic and the need to produce the financial statements and undertake the audit of those statements remotely has resulted in audit procedures, taking additional time. This will necessitate further fees to be charged for the additional time taken to deliver the audit. As highlighted in the previous slide, we have also incurred significant additional time in seeking responses to our enquiries on the property valuations of the Council. This additional work will also result in additional fee to the Council. Once the quantum of this has been determined, we will discuss and agree with the Director of Finance and report the final fee to the next Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Somerset County and Pension Fund Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter Confirming audit fee for 2019/20.</p>	April 2019	Complete
<p>Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete
<p>Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2020	Complete
<p>Audit Findings Report The Audit Findings Report was reported to the September Audit Committee.</p>	September 2020	Complete * (* An updated AFR will be provided once our further work on the valuation of PPE has been concluded)
<p>Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	TBC	Not yet due
<p>Annual Audit Letter This letter communicates the key issues arising from our work.</p>	TBC	Not yet due

