

## **East Hertfordshire District Council Performance Audit and Governance Oversight Committee 19 May 2020**

### **Update to the EY 2019/20 Audit Plan as a result of Covid-19**

**30 April 2020**

#### **Overview**

The EY 2019/20 Audit Plan included in today's agenda was drafted and agreed with the Section 151 officer on 4 March. This paper provides an update considering the known and potential impacts of Covid-19 which will be similar at all local authorities.

We will provide a further update to the next Committee meeting as we expect issues to continue to develop and change.

#### **Timetable**

MHCLG have changed the financial reporting dates for local authorities in light of Covid-19. The Council is now required to publish its draft statements by the 31 August (from 31 May) and publish audited accounts (where they have been audited) by 30 November (from 31 July). At present the Council has indicated that it plans to prepare its draft accounts by 19 June. We are currently scheduling the audit of the accounts for a 4/5-week period commencing 6 July. The timetable is subject to change.

#### **Risks and areas of focus**

At present we have not identified any new significant risks. However, there are some matters we need to highlight as a result of Covid-19:

- Misstatements due to fraud or error

The Audit Plan includes a significant risk in relation to fraud or error relating to the inappropriate capitalisation of revenue expenditure. In response to Covid-19 we will re-visit our fraud assessments as the incentive, opportunity and rationalisation for possible fraudulent misreporting may have changed.

- Going concern

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increases the need for the Council to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we will need to see evidence of going concern up to and including around September / October 2021. This will need information relevant to the 2021/22 financial year, it's budget, etc. We will be scrutinising the Council's revised financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We will also discuss with management the need to make specific disclosures in the 2019/20 statements on going concern and in particular any material uncertainties.

- Property, plant and equipment valuations

The Audit Plan includes PPE valuations as an area of audit focus. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of COVID-19 on markets might cause a valuer to conclude that there is a material uncertainty, which the valuer would then disclose in their report. RICS has explained this is not a 'disclaimer' in the valuation: valuers are continuing to apply their professional judgement, this is disclosing the additional uncertainty attached to current valuations. This is particularly relevant for Fair Value / Market Value based assets because of the paucity of market information available at 31 March upon which to give those valuations. If the Council's valuation report includes this reference, we will need to discuss with management what disclosures they will be including in the statements and the impact on the audit approach as currently outlined in the audit plan.

- Impairment of receivables

There may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations. We will review significant judgements made by management.

- Annual Governance Statement

The widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

- Pensions

The pension liability and disclosures are already an area of audit focus in the Audit Plan. However, volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.

The above is not an exhaustive list of issues and we anticipate that several of the matters reported above will be covered by CIPFA's year end LAAP bulletin on 2019/20 Closedown.

We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

### **Audit delivery**

- Remote working

Our audit documentation tool, Canvas, and the EY Client Portal enable us to undertake the majority of our audit procedures by working remotely. To date, the Council's finance team have also been able to deal with audit queries and continue with their closedown preparations remotely.

- Audit evidence

Whilst remote working is operating relatively effectively, there are likely to be some aspects of audit evidence where we will need to work collaboratively with the finance team to ensure its

appropriateness and sufficiency. For example, typically we would sit down with the finance team to observe them running reports from the ledger which support balances in the statements. We will need to agree a practical and effective way that we can gain the same assurance but working remotely.

Dealing pragmatically with these challenges may increase the duration of the year end audit.

- Auditor's report

Following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, the firm (in common with other firms) has introduced a rigorous consultation process for all auditor reports. Whilst we may not be seeking to issue the Council's auditor report until September, there is likely to remain in place a consultation process that may impact on the timing and the content of the audit report. We will update the Committee at its next meeting.

### **Fees**

In the Audit Plan we referenced our intention to revisit and propose an increase to the scale fee as a result of the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. We have recently shared with the Section 151 officer our proposal for increasing the scale fee and details of the main drivers. However, in light of the matters included in this update, we will need to consider further the impact on the 2019/20 audit fee.

We will update the Committee at its next meeting.

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